

State of Rhode Island
and Providence Plantations

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and Providence Plantations

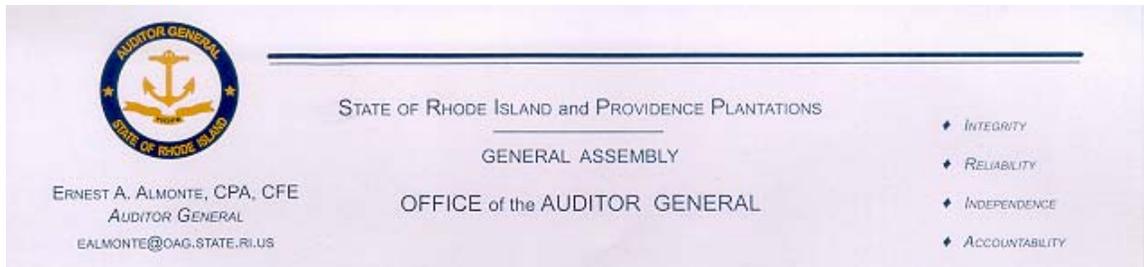
SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2002

Employment Identification Number
056000522

Ernest A. Almonte, CPA, CFE
Auditor General

Office of the Auditor General
General Assembly



November 14, 2003

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations:

I am pleased to submit the State's *Single Audit Report* for the fiscal year ended June 30, 2002. This audit was required by both state law (sections 22-13-4 and 35-7-10 of the General Laws) and the federal Single Audit Act.

The *Single Audit Report* includes our reports on (1) the basic financial statements of the State of Rhode Island, (2) compliance and on internal control over financial reporting, and (3) compliance with requirements applicable to each major federal program and internal control over compliance. A detailed Schedule of Expenditures of Federal Awards is also included as outlined in the Table of Contents on the next page. Findings and related recommendations that are required to be reported in the *Single Audit Report* are included in the Schedule of Findings and Questioned Costs. A corrective action plan, which addresses each current year finding, has been prepared by the State and is included herein. Additionally, the status of prior year findings has also been prepared by the State and is included herein.

Respectfully submitted,

Ernest A. Almonte, CPA, CFE
Auditor General

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Basic Financial Statements

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ERNEST A. ALMONTE, CPA, CFE
AUDITOR GENERAL
EALMONTE@OAG.STATE.RI.US

STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Convention Center Authority enterprise fund; certain component units which represent 99% of the assets and revenues of the discretely presented component units; and 1% of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Convention Center Authority, these component units, and the aggregate remaining fund information, are based solely on the reports of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

We were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, and building improvement categories of capital assets included in the State's basic financial statements at June 30, 2002. The State accumulated information regarding its investment in capital assets for inclusion in the government-wide financial statements at June 30, 2002, however, due to an insufficient number of physical inventories and weaknesses in accounting controls over the accumulation of such data, we were unable to satisfy ourselves as to

the completeness of the carrying value of these categories of capital assets and the related depreciation expense by other auditing procedures. The furniture and equipment, and building improvement capital asset categories represent \$159 million or 17% of total governmental activities capital assets of \$927 million at June 30, 2002.

The liability for compensated absences included in the governmental activities section of the government-wide statement of net assets is understated by an undetermined amount because approximately 1,600 employees' accrued hours (representing 13% of total governmental activities employees) are not included within the State's payroll system which is used to determine this liability.

Certain fines and penalties receivable, as assessed by the Judicial branch, are not reported to the State Controller and consequently are not included as revenue and accounts receivable in the accompanying statements for the general fund and the governmental activities section of the government-wide statement of net assets and statement of activities. The effect of this omission on the general fund financial statements and the governmental activities section of the statement of net assets and statement of activities is not reasonably determinable.

Management has not presented encumbrances outstanding at June 30, 2002 as a reserved component of fund balance within the State's major governmental funds and aggregate remaining governmental funds or disclosed such amounts in the notes to the basic financial statements as required by generally accepted accounting principles. The amount by which this departure would affect the reserved and unreserved components of fund balance of the governmental funds is not reasonably determinable.

In our opinion, except for the effects of (1) such adjustments, if any, on the governmental activities included in the government-wide statement of net assets and the related statement of activities as might have been determined to be necessary had we been provided sufficient evidence regarding the completeness of the furniture and equipment, and building improvement components of capital assets, (2) the incomplete recording of the liability for compensated absences within governmental activities, (3) the omission of certain fines and penalties revenue and receivable from the governmental activities section of the statements of net assets and activities and the general fund financial statements, and (4) the omission of encumbrances outstanding at June 30, 2002 as a component of reserved fund balance of the governmental funds, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1(R), the State has implemented a new financial reporting model as of June 30, 2002, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis–for State and Local Governments*. Additionally, the State has implemented GASB Statement No. 35, *Basic Financial Statements –*

and Management's Discussion and Analysis – for Public Colleges and Universities; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. As required by these new standards, the State presents both government-wide financial statements and fund-level financial statements. Additionally, as provided by Statement No. 34, the State has included only current year outlays for infrastructure as capital assets on the government-wide statement of net assets. Infrastructure outlays from prior years will be included in future financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2003 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The Schedules of Funding Progress, the major fund budgetary comparison schedules, and the Management's Discussion and Analysis as listed in the Table of Contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects, in relation to the basic financial statements taken as whole.



Ernest A. Almonte, CPA, CFE
Auditor General

October 17, 2003

Management's Discussion and Analysis

The following is a discussion and analysis of the financial activities of the State of Rhode Island and Providence Plantations (the State) for the fiscal year ended June 30, 2002. Readers are encouraged to consider the information presented here in conjunction with the letter of transmittal, which can be found at the front of this report, and with the State's financial statements, which follow this section.

Fiscal year 2002 represents the first year in which the State is required to implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis for State and Local Governments*. Therefore, this discussion and analysis provides few comparisons with the previous fiscal year. Future reports are required to include extensive comparisons.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-wide Highlights

- **Net Assets** The total assets of the State exceeded total liabilities at fiscal year ended June 30, 2002 by \$701.3 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$122.8) million was reported as unrestricted net assets, \$537.4 million was restricted net assets, and \$286.7 million was invested in capital assets net of related debt.
- **Changes in Net Assets** The State's total net assets increased by \$346.0 million, or 97.4%, in fiscal year 2002. Net assets of governmental activities increased by \$367.8 million, 482.4%, while net assets of the business-type activities showed a decrease of \$21.8 million.

Fund Highlights

- **Governmental Funds - Fund Balances** As of the close of fiscal year 2002, the State's governmental funds reported a combined ending fund balance of \$514.0 million, a decrease of \$40.8 million in comparison with the previous fiscal year. Included in the combined governmental fund balance is the activity of the State's General Fund. The General Fund ended the fiscal year with an unreserved, undesignated balance of \$31.0 million and the Budget Reserve Account ended the fiscal year with a balance of \$82.0 million.
- **Sale of rights to future tobacco settlement revenues** The State sold its rights to future tobacco settlement revenues to the Tobacco Settlement Financing Corporation for \$544 million. Of this amount \$295 million was used to defease long term debt and \$135 million was used to support general fund operations during fiscal 2002.

Management's Discussion and Analysis

Long-term Debt Highlights

- The State's long-term debt obligations (bonds and certificates of participation) decreased by \$233.5 million during the current fiscal year which represents the net difference between new issuances, payments and refundings of outstanding debt. The key factor contributing to this decrease was the defeasance during the fiscal year of \$277 million of bonds and certificates of participation. This defeasance was accomplished with the proceeds of the sale of the rights to future tobacco settlement revenues as described above.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements include three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements provide a broad view of the State's finances. The statements provide both short-term and long-term information about the State's financial position, which assists in assessing the State's financial condition at the end of the year. They are prepared using the accrual basis of accounting, which recognizes all revenues and grants when earned and expenses at the time the related liabilities are incurred.

- The **Statement of Net Assets** presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the government's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.
- The **Statement of Activities** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods; for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

Management's Discussion and Analysis

Both of the government-wide financial statements have separate sections for three different types of government activities:

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation.
- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Lottery Commission, RI Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. The State has 21 discretely presented component units. Financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the State government, and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

- **Governmental funds:** Most of the State's basic services are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on spendable resources available at the end of the fiscal year. Such information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financial decisions. Both the governmental fund statement of net assets and the governmental fund statement of revenues, expenditures and changes in fund net assets provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities.

Management's Discussion and Analysis

Governmental funds include the General Fund and special revenue, capital projects, debt service and permanent funds. The State has several governmental funds, of which four are considered major individual funds. Those are the General Fund, the Intermodal Surface Transportation Fund, the Tobacco Settlement Trust Fund, and the Bond Capital Fund. Each of these major funds are presented in a separate column in the governmental fund statement of net assets and in the governmental statement of revenues, expenditures and changes in fund net assets. The remaining governmental funds are combined in a single aggregated column on the basic fund statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of this report.

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds, enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Like the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority Fund and the Employment Security Trust Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's fourteen (14) internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of this report.
- **Fiduciary funds:** These funds are used to account resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension trust, private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's progress in funding its

Management's Discussion and Analysis

obligation to provide pension benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major funds that have a legally-mandated budget.

Other Supplementary Information

Other supplementary information includes combining financial statements for nonmajor governmental internal service and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$701.3 million at the end of fiscal year 2002, compared to \$355.3 million at the end of the prior fiscal year.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets) less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources.

Management's Discussion and Analysis

State of Rhode Island's Net Assets as of June 30, 2002 (Expressed in Thousands)			
	Governmental Activities	Business- Type Activities	Total Primary Government
Current and other assets	\$ 982,314	\$ 365,997	\$ 1,348,311
Capital assets	927,313	209,022	1,136,335
Total assets	1,909,627	575,019	2,484,646
Long-term liabilities outstanding	925,892	286,930	1,212,822
Other liabilities	539,639	30,836	570,475
Total liabilities	1,465,531	317,766	1,783,297
Net assets:			
Invested in capital assets, net of related debt	371,614	(84,909)	286,705
Restricted	196,913	340,512	537,425
Unrestricted	(124,431)	1,650	(122,781)
Total net assets	\$ 444,096	\$ 257,253	\$ 701,349

An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used

Changes in Net Assets

The State's net assets increased by \$346.0 million, or 97.3%, during the current fiscal year. Total revenues of \$6.1 billion (including special items) were more than expenses (\$5.7) billion. Approximately 35.6% of the State's total revenue came from taxes, while 25.3% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 27.1% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services (36.8%) and intergovernmental (15.6%). In 2002, governmental activity expenses exceeded program revenues, which resulted in the use of \$2.71 billion in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in 2002 exceeded expenses by \$148.4 million.

Management's Discussion and Analysis

State of Rhode Island's Changes in Net Assets			
For the Fiscal Year Ended June 30, 2002			
(Expressed in Thousands)			
	Governmental Activities	Business- Type Activities	Total Primary Government
Revenues:			
Program revenues:			
Charges for services	\$ 306,007	\$ 1,345,922	\$ 1,651,929
Operating grants and contributions	1,315,974	50,656	1,366,630
Capital grants and contributions	176,071		176,071
General revenues:			
Taxes	2,187,342		2,187,342
Interest	10,005	21,134	31,139
Other	153,947	7,615	161,562
Total revenues	4,149,346	1,425,327	5,574,673
Expenses:			
General government	455,489		455,489
Human services	2,115,220		2,115,220
Education	339,455		339,455
Public safety	288,291		288,291
Natural resources	138,287		138,287
Transportation	192,824		192,824
Intergovernmental	896,512		896,512
Grants	287		287
Interest	79,381		79,381
Lottery		958,626	958,626
Convention Center		57,900	57,900
Employment insurance		231,665	231,665
	4,505,746	1,248,191	5,753,937
Increase in net assets before transfers and special items	(356,400)	177,136	(179,264)
Transfers	198,969	(198,969)	0
Special items	525,276		525,276
Increase in net assets	367,845	(21,833)	346,012
Net assets - July 1, 2001	76,251	279,086	355,337
Net assets - June 30, 2002	\$ 444,096	\$ 257,253	\$ 701,349

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year.

Management's Discussion and Analysis

As of the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$514.1 million, a decrease of \$40.9 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$82.0 million for a "rainy day" account, (2) \$50.7 million for continuing appropriations and (3) \$20.9 million principally to liquidate debt. Approximately 70.1% (\$360.4 million) of the ending fund balance is designated by the State's management consistent with the limitations of each fund.

The major governmental funds of the primary government are:

General Fund. The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$31.1 million, while total fund balance was \$163.8 million. As a measurement of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represent less than 1% of total General Fund expenditures, while total fund balance represent 4% of the same amount.

The General Fund's total fund balance decreased by \$104.3 million during the current fiscal year. This decrease can be attributed to a draw down of opening fund balance and significant decrease in tax revenues, due in large part to the effects of a sluggish economy.

Intermodal Surface Transportation Fund. The Intermodal Surface Transportation Fund (ISTEA) accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the current fiscal year, unreserved fund balance of the ISTEA fund was \$32.0 million, while the total fund balance was \$33.3 million. Total fund balance of the ISTEA fund decreased by a nominal \$.7 million during the current fiscal year.

Tobacco Settlement Trust Fund. The Tobacco Settlement Trust Fund (TSTF) accounts for the proceeds from the sale of the rights to future tobacco settlement revenues by the State to the Tobacco Settlement Finance Corporation. At the end of the current fiscal year, unreserved fund balance of the TSTF was \$113.9 million. This was the first year of operation for the TSTF.

Bond Capital Fund. The Bond Capital Fund (BCF) accounts for the proceeds of the bonds issued and the related capital expenditures not required to be accounted for in another capital projects fund. At the end of the current fiscal year, unreserved fund balance of the BCF fund was \$58.3 million. Fund balance of the BCF decreased by **Error! Not a valid link.**million during the current fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During fiscal year 2002, the original budget was amended by supplemental appropriations and was modified to accommodate declining tax revenues. Differences between the original budget and the final enacted budget can be briefly summarized as follows:

- Decrease in taxes of \$165 million, with significant changes in personal income tax (decreased by \$141 million) and business corporations tax (decreased by \$50 million);
- Transfer of \$135 million from the Tobacco Settlement Trust Fund for general use;
- Increase of amount transferred from the Lottery Fund by \$23.8 million; and

Management's Discussion and Analysis

- Net general revenue appropriations increased by \$9.6 million, including a \$16.8 million supplemental appropriation for the Department of Human Services.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The State's investment in capital assets for its governmental and business-type activities as of June 30, 2002, amounts to \$1.1 billion, net of accumulated depreciation of \$395 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 16.4% in terms of net book value. In accordance with GASB 34, the State has not recorded its investment in infrastructure prior to July 1, 2001. Such amounts will be included in future financial statements.

Actual expenditures to purchase or construct capital assets were \$208.2 million for the year. Of this amount, \$118.2 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$45 million.

State of Rhode Island's Capital Assets as of June 30, 2002 (Expressed in Thousands)			
	Governmental Activities	Business- Type Activities	Total Primary Government
Capital assets not being depreciated			
Land	\$ 373,185	\$ 38,032	\$ 411,217
Construction in progress	31,653	1,336	32,989
Total capital assets not being depreciated	404,838	39,368	444,206
Capital assets being depreciated			
Land improvements	3,209		3,209
Buildings	369,453	227,336	596,789
Buildings improvements	206,929		206,929
Equipment	143,716	18,466	162,182
Infrastructure	118,277		118,277
	841,584	245,802	1,087,386
Less: Accumulated depreciation	(319,109)	(76,148)	(395,257)
Total capital assets being depreciated	522,475	169,654	692,129
Total capital assets (net)	\$ 927,313	\$ 209,022	\$ 1,136,335

Additional information on the State's capital assets can be found in the notes to the financial statements of this report.

Debt Administration. Under the State's Constitution, the General Assembly has no power to incur State debts in excess of \$50,000 without the consent of the people (voters), except in the

Management's Discussion and Analysis

case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of \$820.6 million. The State's total bonded debt decreased by \$388.7 million (20%) during the current fiscal year. The key factor in this decrease was a cash defeasance of \$242.9 million that was funded by the proceeds from the sale of the rights to future tobacco settlement revenues. Additionally, the State has extended its credit through contractual agreements of a long-term nature which are subject to annual appropriations.

During the current fiscal year, the State issued \$135.4 million of general obligation bonds and \$39.8 of general obligation refunding bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's). For the portion of the bonds that are insured, the ratings assigned by Fitch, Moody's, and Standard and Poor's are AAA, Aaa, and AAA, respectively. The ratings assigned by Fitch, Moody's, and Standard and Poor's to the bonds that are not insured are AA, Aa3, and AA-, respectively.

The State does not have any debt limitation. Bonds authorized by the voters, that remain unissued as of the end of the current fiscal year, amounted to \$183.1 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

ECONOMIC FACTORS

The State's economy was one of only two economies in the northeastern United States that did not experience a downturn in employment growth from 2000 - 2002. This record of economic performance gives the State an unprecedented opportunity to further its economic development without having to first repair the damage from the national economic recession.

As of September 2003, year-over-year growth in the State's total employment, not seasonally adjusted, was 0.2% compared to a negative growth rate of -0.4% for the nation as a whole. With respect to year-over-year growth in personal income, in the second quarter of 2003, the State's personal income growth was 3.1%, compared to the United States as a whole's rate of 2.8%. Finally, the State's unemployment rate for September 2003 was 4.5% compared to 6.1% for the nation as a whole.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Rhode Island's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional information should be sent to finreport@mail.state.ri.us.

State of Rhode Island and Providence Plantations

Statement of Net Assets

June 30, 2002

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental activities	Business - Type Activities	Totals	
Assets				
Current assets:				
Cash and cash equivalents	\$ 500,192	\$ 22,261	\$ 522,453	\$ 525,279
Funds on deposit with fiscal agent	24,431	277,188	301,619	
Investments	17,008	691	17,699	950,247
Receivables (net)	251,320	43,338	294,658	1,343,153
Due from primary government				4,476
Due from component units	5,215		5,215	
Internal balances	3,862	(3,862)		
Due from other governments and agencies	150,242	1,818	152,060	14,060
Inventories	2,303	886	3,189	6,635
Other assets	3,349	1,336	4,685	606,190
Total current assets	<u>957,922</u>	<u>343,656</u>	<u>1,301,578</u>	<u>3,450,040</u>
Noncurrent assets:				
Investments		17,494	17,494	91,208
Receivables (net)	1,022		1,022	909,636
Due from component units	23,361		23,361	
Capital assets - nondepreciable	404,838	39,368	444,206	282,397
Capital assets - depreciable (net)	522,475	169,654	692,129	858,842
Lease receivable				6,345
Other assets	9	4,847	4,856	164,709
Total noncurrent assets	<u>951,705</u>	<u>231,363</u>	<u>1,183,068</u>	<u>2,313,137</u>
Total assets	<u>1,909,627</u>	<u>575,019</u>	<u>2,484,646</u>	<u>5,763,177</u>
Liabilities				
Current Liabilities:				
Cash overdraft	4,525	212	4,737	373
Accounts payable	322,838	11,154	333,992	81,412
Due to primary government				2,793
Due to component units	4,476		4,476	
Due to other governments and agencies	2,430	1,563	3,993	2,112
Accrued expenses	58,433	3,737	62,170	64,479
Deferred revenue	11,854	854	12,708	16,204
Other current liabilities	32,668	425	33,093	7,765
Current portion of long-term debt	102,415	7,228	109,643	148,019
Obligation for unpaid prize awards		5,663	5,663	
Total current liabilities	<u>539,639</u>	<u>30,836</u>	<u>570,475</u>	<u>323,157</u>
Noncurrent Liabilities:				
Due to primary government				647
Due to other governments and agencies				4,486
Accrued liabilities				32,976
Deferred revenue				1,080
Notes payable				6,468
Loans payable				73,085
Obligations under capital lease	109,769		109,769	47,582
Compensated absences	19,430		19,430	22,519
Bonds payable	778,691	286,610	1,065,301	3,547,652
Other liabilities	18,002	320	18,322	307,025
Total noncurrent liabilities	<u>925,892</u>	<u>286,930</u>	<u>1,212,822</u>	<u>4,043,520</u>
Total liabilities	<u>1,465,531</u>	<u>317,766</u>	<u>1,783,297</u>	<u>4,366,677</u>
Net Assets				
Invested in capital assets, net of related debt	371,614	(84,909)	286,705	682,295
Restricted for:				
Budget Reserve	82,024		82,024	
State infrastructure bank	1,343		1,343	
Debt	19,544	28,194	47,738	568,763
Employment Insurance Programs	94,002	312,318	406,320	
Unrestricted	(124,431)	1,650	(122,781)	145,442
Total net assets	<u>\$ 444,096</u>	<u>\$ 257,253</u>	<u>\$ 701,349</u>	<u>\$ 1,396,500</u>

State of Rhode Island and Providence Plantations
Statement of Activities
For the Year Ended June 30, 2002
(Expressed in Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Primary Government		Totals	
					Governmental Activities	Business-type activities		
Primary government:								
Governmental activities:								
General government	\$ 455,489	\$ 140,869	\$ 64,412	\$ 484	\$ (249,724)	\$	\$ (249,724)	\$
Human services	2,115,220	98,789	1,074,576		(941,855)		(941,855)	
Education	339,455	2,744	111,618		(225,093)		(225,093)	
Public safety	288,291	30,230	22,476		(235,585)		(235,585)	
Natural resources	138,287	30,573	12,590	3,941	(91,183)		(91,183)	
Transportation	192,824	2,802	30,302	171,646	11,926		11,926	
Intergovernmental	896,512				(896,512)		(896,512)	
Grants	287				(287)		(287)	
Interest and other charges	79,381				(79,381)		(79,381)	
Total governmental activities	<u>4,505,746</u>	<u>306,007</u>	<u>1,315,974</u>	<u>176,071</u>	<u>(2,707,694)</u>		<u>(2,707,694)</u>	
Business-type activities:								
State lottery	958,626	1,170,860				212,234	212,234	
Convention Center	57,900	39,291				(18,609)	(18,609)	
Employment security	231,665	135,771	50,656			(45,238)	(45,238)	
Total business-type activities	<u>1,248,191</u>	<u>1,345,922</u>	<u>50,656</u>			<u>148,387</u>	<u>148,387</u>	
Total primary government	<u>\$ 5,753,937</u>	<u>\$ 1,651,929</u>	<u>\$ 1,366,630</u>	<u>\$ 176,071</u>	<u>(2,707,694)</u>	<u>148,387</u>	<u>(2,559,307)</u>	
Component units	<u>\$ 925,070</u>	<u>\$ 629,259</u>	<u>\$ 343,134</u>	<u>\$ 86,064</u>				133,387
General Revenues:								
Taxes					2,187,342		2,187,342	
Interest and investment earnings					10,005	21,134	31,139	47,805
Miscellaneous					153,947	7,615	161,562	(218)
Special items					525,276		525,276	(2,790)
Transfers					198,969	(198,969)		
Total general revenues, special items, and transfers					<u>3,075,539</u>	<u>(170,220)</u>	<u>2,905,319</u>	<u>44,797</u>
Change in net assets					367,845	(21,833)	346,012	178,184
Net assets - beginning					76,251	279,086	355,337	1,218,316
Net assets - ending					<u>\$ 444,096</u>	<u>\$ 257,253</u>	<u>\$ 701,349</u>	<u>\$ 1,396,500</u>

State of Rhode Island and Providence Plantations

Balance Sheet

Governmental Funds

June 30, 2002

(Expressed in Thousands)

	General	Intermodal Surface Transportation	Bond Capital	Tobacco Settlement Trust	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 193,870	\$ 9,503	\$ 100,590	\$ 113,938	\$ 73,314	\$ 491,215
Funds on deposit with fiscal agent					24,431	24,431
Investments					17,008	17,008
Receivables (net)	196,134	11,365			39,620	247,119
Due from other funds	26,810	15,499	4		733	43,046
Due from component units	1,646	1,147				2,793
Due from other governments and agencies	117,788	28,358	4,095			150,241
Loans to other funds	5,791					5,791
Other assets	77	68			2,727	2,872
Total assets	542,116	65,940	104,689	113,938	157,833	984,516
Liabilities and Fund Balances						
Liabilities						
Accounts payable	285,817	20,677	9,158		1,234	316,886
Due to other funds	2,958		35,564		7,032	45,554
Due to component units	1,818	2,628	29			4,475
Due to other governments and agencies		2,431				2,431
Loans from other funds			1,458		1,523	2,981
Accrued expenses	43,172					43,172
Deferred revenue	17,176	5,043	66			22,285
Other liabilities	27,375	1,796	59		3,438	32,668
Total liabilities	378,316	32,575	46,334		13,227	470,452
Fund Balances						
Reserved for:						
Budget reserve	82,024					82,024
Appropriations carried forward	50,737					50,737
Debt					19,544	19,544
State infrastructure bank		1,343				1,343
Unreserved, reported in:						
General fund	31,039					31,039
Special revenue funds		32,022		113,938	95,501	241,461
Capital projects funds			58,355		28,775	87,130
Permanent fund					786	786
Total fund balances	163,800	33,365	58,355	113,938	144,606	514,064
Total liabilities and fund balances	\$ 542,116	\$ 65,940	\$ 104,689	\$ 113,938	\$ 157,833	\$ 984,516

State of Rhode Island and Providence Plantations
 Reconciliation of the Balance Sheet of the Governmental Funds
 to Statement of Net Assets for Governmental Activities
 June 30, 2002
 (Expressed in Thousands)

Fund Balance of Governmental Funds	\$	514,064
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.		923,392
Bond, notes, certificates of participation, and accrued interest are not due and payable in the current period and therefore are not recorded in the governmental funds.		(1,040,255)
Long-term receivables from component units that are not available to pay for current-period expenditures and therefore are not recorded in the fund financial statements.		25,783
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.		10,439
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds is reported with governmental activities.		10,673
Net Assets - Governmental Activities	\$	444,096

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Bond Capital	Tobacco Settlement Trust	Other Governmental Funds	Total Governmental Funds
Operating revenues:						
Taxes	\$ 1,905,131	\$ 130,000	\$	\$	\$ 146,825	\$ 2,181,956
Licenses, fines, sales, and services	186,927				11,810	198,737
Departmental restricted revenue	77,038	2,802				79,840
Federal grants	1,289,575	190,294	7,257			1,487,126
Income from investments	1,092	339	3,525		4,676	9,632
Net increase in the fair value of investments					182	182
Other revenues	55,346	970	3,698		674	60,688
Total operating revenues	3,515,109	324,405	14,480		164,167	4,018,161
Operating expenditures:						
Current:						
General government	273,966				154,918	428,884
Human services	2,103,198					2,103,198
Education	92,035					92,035
Public safety	288,363					288,363
Natural resources	56,220		3,698		4,650	64,568
Transportation		122,208				122,208
Capital outlays	37,153	133,548	24,929		8,099	203,729
Intergovernmental	892,172	832	3,453		56	896,513
Grants			287			287
Debt service:						
Principal	91,576					91,576
Interest and other charges	65,557				8,527	74,084
Total operating expenditures	3,900,240	256,588	32,367		176,250	4,365,445
Operating income (loss)	(385,131)	67,817	(17,887)		(12,083)	(347,284)
Nonoperating revenues (expenses)						
Bonds and notes issued			174,000		1,205	175,205
Premium and accrued interest			6,069		46	6,115
Operating transfers in	469,143	44,861	52,348		3,250	569,602
Operating transfers in from component units	26,721					26,721
Other	83,142					83,142
Payment to refunded bonds escrow agent			(40,239)	(295,300)		(335,539)
Operating transfers out	(72,567)	(50,872)	(100,502)	(135,000)	(1,602)	(360,543)
Operating transfers out to component units	(225,653)	(62,543)	(111,463)		(2,850)	(402,509)
Total nonoperating revenues (expenses)	280,786	(68,554)	(19,787)	(430,300)	49	(237,806)
Special item				544,238		544,238
Change in fund balances	(104,345)	(737)	(37,674)	113,938	(12,034)	(40,852)
Fund balances - beginning	268,145	34,102	96,029		156,640	554,916
Fund balances - ending	\$ 163,800	\$ 33,365	\$ 58,355	\$ 113,938	\$ 144,606	\$ 514,064

State of Rhode Island and Providence Plantations
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2002
 (Expressed in Thousands)

Change in Fund Balance - Governmental Funds	\$	(40,852)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.		166,266
Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		229,249
Revenues in the Statement of Activities do not provide current financial resources and are therefore recorded as deferred revenue in the Governmental Funds Balance Sheet		10,439
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental		2,743
Change in Net Assets - Governmental Activities	\$	<u><u>367,845</u></u>

State of Rhode Island and Providence Plantations
Statement of Net Assets
Proprietary Funds
June 30, 2002
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets					
Current assets:					
Cash and cash equivalents	\$ 6,600	\$ 14,246	\$ 1,415	\$ 22,261	\$ 8,977
Funds on deposit with fiscal agent			277,188	277,188	
Investments	691			691	
Receivables (net)	7,594	2,223	33,521	43,338	4,201
Due from other funds					9,794
Due from other governments and agencies			1,818	1,818	
Inventories	886			886	2,304
Other assets	459	877		1,336	476
Total current assets	<u>16,230</u>	<u>17,346</u>	<u>313,942</u>	<u>347,518</u>	<u>25,752</u>
Noncurrent assets:					
Investments	320	17,174		17,494	
Capital assets - nondepreciable	751	38,617		39,368	
Capital assets - depreciable (net)	530	169,124		169,654	3,921
Other assets		4,847		4,847	1,022
Total noncurrent assets	<u>1,601</u>	<u>229,762</u>		<u>231,363</u>	<u>4,943</u>
Total assets	<u>17,831</u>	<u>247,108</u>	<u>313,942</u>	<u>578,881</u>	<u>30,695</u>
Liabilities					
Current Liabilities					
Cash overdraft	212			212	4,525
Accounts payable	8,877	2,277		11,154	5,953
Due to primary government					
Due to other funds	2,142	1,659	61	3,862	3,424
Due to component units					
Due to other governments and agencies			1,563	1,563	
Loans from other funds					2,810
Accrued expenses		3,737		3,737	
Deferred revenue	157	697		854	
Other current liabilities	425			425	2,044
Notes payable		1,153		1,153	
Bonds payable		6,075		6,075	
Obligations under capital lease					112
Obligation for unpaid prize awards	5,663			5,663	
Total current liabilities	<u>17,476</u>	<u>15,598</u>	<u>1,624</u>	<u>34,698</u>	<u>18,868</u>
Noncurrent Liabilities					
Obligations under capital lease					1,156
Bonds payable		286,610		286,610	
Notes payable					
Compensated absences					
Obligation for unpaid prize awards	320			320	
Total noncurrent liabilities	<u>320</u>	<u>286,610</u>		<u>286,930</u>	<u>1,156</u>
Total liabilities	<u>17,796</u>	<u>302,208</u>	<u>1,624</u>	<u>321,628</u>	<u>20,024</u>
Net Assets					
Invested in capital assets, net of related debt	35	(84,944)		(84,909)	2,423
Restricted for:					
Capital Projects					348
Debt		28,194		28,194	
Employment Insurance Programs			312,318	312,318	
Unrestricted		1,650		1,650	7,900
Total net assets	<u>\$ 35</u>	<u>\$ (55,100)</u>	<u>\$ 312,318</u>	<u>\$ 257,253</u>	<u>\$ 10,671</u>

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2002
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Totals	Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security		Internal Service Funds
Operating revenues:					
Charges for services	\$ 1,170,860	\$ 38,686	\$ 134,468	\$ 1,344,014	\$ 98,901
Grants			50,656	50,656	
Miscellaneous		605	1,303	1,908	
Total operating revenues	1,170,860	39,291	186,427	1,396,578	98,901
Operating expenses:					
Personal services	3,194	14,727		17,921	13,196
Supplies, materials, and services	161,667	16,056		177,723	82,008
Prize awards	793,540			793,540	
Depreciation	225	9,584		9,809	756
Benefits Paid			225,641	225,641	
Total operating expenses	958,626	40,367	225,641	1,224,634	95,960
Operating income (loss)	212,234	(1,076)	(39,214)	171,944	2,941
Nonoperating revenues (expenses):					
Interest revenue	1,973	1,327	17,834	21,134	22
Other nonoperating revenue			7,615	7,615	
Interest expense		(17,533)		(17,533)	(76)
Other nonoperating expenses			(6,024)	(6,024)	
Total nonoperating revenue (expenses)	1,973	(16,206)	19,425	5,192	(54)
Net income (loss) before transfers	214,207	(17,282)	(19,789)	177,136	2,887
Transfers in		16,969		16,969	
Transfers out	(214,279)	(1,659)		(215,938)	(143)
Change in net assets	(72)	(1,972)	(19,789)	(21,833)	2,744
Total net assets - beginning	107	(53,128)	332,107	279,086	7,927
Total net assets - ending	\$ 35	\$ (55,100)	\$ 312,318	\$ 257,253	\$ 10,671

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2002
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I.			Internal	
	R.I. State Lottery	Convention Center	Employment Security	Totals	Service Funds
Cash flows from operating activities					
Cash received from customers	\$ 1,177,258	\$ 38,899	\$ 138,285	\$ 1,354,442	\$ 50,807
Cash received from grants			22,917	22,917	
Cash payments to suppliers for goods and services	(3,368)	(15,208)		(18,576)	(78,492)
Cash payments to employees for services	(3,401)	(14,312)		(17,713)	(18,749)
Cash payments to prize winners	(799,985)			(799,985)	
Cash payments for commissions	(155,333)			(155,333)	
Cash payments for benefits			(225,608)	(225,608)	
Other operating revenue (expense)			479	479	(173)
Net cash provided by (used for) operating activities	215,171	9,379	(63,927)	160,623	(46,607)
Cash flows from noncapital financing activities					
Loans from other funds					72,755
Loans to other funds					18,420
Repayment of loans to other funds					(42,794)
Operating transfers in		16,393	202,004	218,397	
Operating transfers out	(213,444)	(1,659)	(138,991)	(354,094)	
Negative cash balance implicitly financed	(221)			(221)	4,525
Other			1,006	1,006	
Net cash provided by (used for) noncapital financing activities	(213,665)	14,734	64,019	(134,912)	52,906
Cash flows from capital and related financing activities					
Principal paid on capital obligations		(7,640)		(7,640)	(348)
Interest paid on capital obligations		(15,278)		(15,278)	(76)
Acquisition of capital assets	(1,064)	(3,356)		(4,420)	(215)
Proceeds from the disposition of capital assets					154
Proceeds from bonds		2,596		2,596	
Net cash provided by (used for) capital and related financing activities	(1,064)	(23,678)		(24,742)	(485)
Cash flows from investing activities					
Proceeds from sale and maturity of investments	902	4,244		5,146	
Interest on investments	457	1,365		1,822	22
Net cash provided by (used for) investing activities	1,359	5,609		6,968	22
Net increase (decrease) in cash and cash equivalents	1,801	6,044	92	7,937	5,836
Cash and cash equivalents, July 1, 2001	4,799	8,202	1,323	14,324	3,141
Cash and cash equivalents, June 30, 2002	\$ 6,600	\$ 14,246	\$ 1,415	\$ 22,261	\$ 8,977
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	212,234	(1,076)	(39,214)	171,944	2,941
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation	225	9,584		9,809	756
Other revenue (expense)					
Net changes in assets and liabilities:					
Receivables, net	(1,588)	(360)	2,933	985	(153,422)
Operating revenue deposited directly with the fiscal agent			(27,717)	(27,717)	
Inventory	(150)			(150)	(4)
Prepaid items	16	(50)		(34)	24
Other assets	516		(42)	474	
Other income / expenses					
Due to / due from transactions			113	113	
Accounts and other payables	3,125	763		3,888	102,855
Accrued expenses	(51)	543		492	243
Deferred revenue	16			16	
Prize awards payable	828			828	
Other liabilities		(25)		(25)	
Total adjustments	2,937	10,455	(24,713)	(11,321)	(49,548)
Net cash provided by (used for) operating activities	\$ 215,171	\$ 9,379	\$ (63,927)	\$ 160,623	\$ (46,607)

State of Rhode Island and Providence Plantations
Statement of Net Assets
Fiduciary Funds
June 30, 2002
(Expressed in Thousands)

	Pension Trust	Private Purpose	
		Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	\$ 4,794	\$ 107	\$ 15,177
Receivables			
Contributions	25,957		
Due from state for teachers	15,486		
Miscellaneous	2,514	3	
Total receivables	43,957	3	
Investments, at fair value			
Equity in Short-Term Investment Fund	193		
Equity in Pooled Trust	5,394,370		
Plan specific investments	23,072		
Other investments		1,852	69,127
Total investments before lending activities	5,417,635	1,852	69,127
Invested securities lending collateral	527,155		
Property and equipment, at cost, net of accumulated depreciation			
Line of Business System in Development	12,256		
Computer Equipment	458		
Total Property and Equipment	12,714		
Total assets	6,006,255	1,962	84,304
Liabilities			
Securities lending liability	527,156		
Accounts payable	4,841		
Deposits held for others			84,304
Total liabilities	531,997		84,304
Net assets held in trust for pension and other benefits	\$ 5,474,258	\$ 1,962	\$

State of Rhode Island and Providence Plantations
Statement of Changes in Fund Net Assets
Fiduciary Funds
June 30, 2002
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	\$ 141,715	\$
Employer contributions	88,750	
State contributions for teachers	30,763	
Interest on service credits purchased	546	
Total contributions	261,774	
Investment income		
Net depreciation in fair value of investments	(669,135)	(337)
Interest	117,549	62
Dividends	38,387	
Other investment income	19,738	
	(493,461)	(275)
Less investment expense	17,962	21
Net income from investing activities	(511,423)	(296)
Securities Lending		
Securities lending income	13,627	
Less securities lending expense	11,022	
Net securities lending income	2,605	
Total net investment income	(508,818)	(296)
Total additions	(247,044)	(296)
Deductions		
Benefits		
Retirement benefits	332,134	
Cost of living adjustment	75,596	
SRA Plus (option)	22,610	
Supplemental benefits	991	
Death benefits	3,250	
Total benefits	434,581	
Refund of contributions	5,674	
Administrative expense	3,965	
Distribution		52
Total deductions	444,220	52
Net increase (decrease)	(691,264)	(348)
Net assets held in trust for pension benefits		
Beginning of year	6,165,522	2,310
End of year	\$ 5,474,258	\$ 1,962

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2002

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Note 1. Summary Of Significant Accounting Policies

A. Basis of Presentation

The accompanying basic financial statements of the State of Rhode Island and Providence Plantations (the State) and its component units have been prepared in conformance with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB defines component units as legally separate entities for which a primary government (the State) is financially accountable or, if not financially accountable, their exclusion would cause the State's financial statements to be misleading. GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an entity's governing body and (1) the ability of the State to impose its will on that entity or (2) the potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the State. The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges and the Central Falls School District as potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices.

Blended Component Units

These component units are entities which are legally separate from the State, but are so intertwined with the State that they are in substance, the same as the State. They are reported as part of the State and blended into the appropriate funds.

State Lottery Fund (Lottery) - This fund is used to account for the revenues generated by the State Lottery Commission in conducting various lottery games. According to statute, earnings after allocation for prize awards and payment of expenses shall be transferred to the State's general fund. For more detailed information, a copy of the financial statements can be obtained by writing to the State Lottery Commission, 1425 Pontiac Avenue, Cranston, RI 02920.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Providence, RI 02903.

Rhode Island Refunding Bond Authority (RIRBA) - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Refunding Bond Authority, State House, Providence, RI 02903.

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Rhode Island Economic Policy Council (RIEPC) - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with State officials to identify issues facing the State's economy, to develop and recommend creative strategies and policies to address them, to advise the State legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Policy Council, 15 Westminster Street Suite 615, Providence, RI 02903-2417.

Discretely Presented Component Units

Discretely presented component units are reported in a separate column in the basic financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. Discretely presented component units are:

University and Colleges - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through State appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to the University of Rhode Island, Carlotti Administration Building, Kingston, RI 02881; Rhode Island College, Mount Pleasant Avenue, Providence, RI 02908; and Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

Central Falls School District - The Rhode Island General Assembly passed an act which provided for the State to assume an administrative takeover of the Central Falls School District. The Governor appointed a special State administrator who replaced the school committee. The State administrator reports to the Commissioner of Elementary and Secondary Education. The District's purpose is to provide elementary and secondary education to residents of the City of Central Falls. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 21 Hadley Avenue, Central Falls, RI 02863.

Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) - This Corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721.

Rhode Island Student Loan Authority (RISLA) - This Authority, established in 1981, was created in order to provide a statewide student loan program through the acquisition of student loans. It has the power to issue bonds and notes, payable solely from its revenues. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Student Loan Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

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Rhode Island Turnpike and Bridge Authority (RITBA) - This Authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437.

Rhode Island Economic Development Corporation (RIEDC) - This Corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. The RIEDC has a subsidiary corporation, the R. I. Airport Corporation, that manages the State's six airports. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Economic Development Corporation, One West Exchange Street, Providence, RI 02903.

Narragansett Bay Commission (NBC) - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the State to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, One Service Road, Providence, RI 02905.

Rhode Island Health and Educational Building Corporation (RIHEBC) - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the State; (2) to assist hospitals in the State in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903.

Rhode Island Resource Recovery Corporation (RIRRC) - This Corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the State. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919.

Rhode Island Depositors Economic Protection Corporation (DEPCO) - This Corporation was created in 1991 to assist in protecting the interests of depositors of certain financial institutions in the State which had been closed when their private deposit insurer failed, thereby leaving those institutions without deposit insurance as required by statute. DEPCO is empowered to acquire all or a portion of the assets of the closed institutions thereby aiding the prompt repayment of the deposit liabilities of the closed institutions. DEPCO has the power to issue negotiable bonds and notes to achieve its corporate purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the DEPCO , One Capitol Hill, Providence, R.I. 02903

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Rhode Island Higher Education Assistance Authority (RIHEAA) - This Authority was created by law in 1977 for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post secondary student assistance. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886.

Rhode Island Public Transit Authority (RIPTA) - This Authority was established in 1964 to acquire any mass motor bus transportation system if that system has previously filed a petition to discontinue its service and further, if RIPTA determines it is in the public interest to continue such service. Revenues of RIPTA include operating assistance grants from the federal and State governments. For more detailed information, a copy of their financial statements can be obtained by writing to the R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907.

Rhode Island Industrial Facilities Corporation (RIIFC) - The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Industrial Facilities Corporation, One West Exchange Street, Providence, RI 02903.

Rhode Island Clean Water Finance Agency (RICWFA) - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, RI 02908.

Rhode Island Industrial-Recreational Building Authority (RIIRBA) - This Authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. Any losses realized in excess of the fund balance would be funded by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Industrial-Recreational Building Authority, One West Exchange Street, Providence, RI 02903.

Rhode Island Water Resources Board Corporate (RIWRBC) - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 100 North Main Street, Providence, RI 02903.

Rhode Island Public Telecommunications Authority (RIPTCA) - This Authority owns and operates a non-commercial educational television station in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124.

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Rhode Island Children's Crusade for Higher Education (RICCHE) - This is a Rhode Island nonprofit corporation formed for the purpose of fostering the education of economically disadvantaged youth through scholarship awards, summer jobs programs, and mentoring programs for parents and students. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Children's Crusade for Higher Education, The 134 Center, Suite 111, 134 Thurbers Avenue, Providence, RI 02905.

Tobacco Settlement Financing Corporation (TSFC) - This corporation was organized on June 13, 2002 as a public corporation by the State. TSFC is legally independent and separate from the State and there is no financial interdependency between the two entities. The purpose of the corporation is to purchase tobacco settlement revenues from the State. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02903.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Investment in capital assets, net of related debt. This category reflects the portion of net assets associated with capital assets, net of accumulated depreciation and reduced by outstanding bonds and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets. This category results when constraints are externally imposed on net assets use by creditors, grantors or contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets. This category represents net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial

State of Rhode Island and Providence Plantations
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statements. Major individual governmental funds and all enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available, i.e., earned and collected within the next 12 months. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

The State reports the following major funds:

General Fund. This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Intermodal Surface Transportation Fund. This fund accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system.

Tobacco Settlement Trust Fund. The Tobacco Settlement Trust Fund accounts for the proceeds from the sale of the rights to tobacco settlement revenues by the State to the Tobacco Settlement Finance Corporation.

Bond Capital Fund. The Bond Capital Fund (BCF) accounts for the proceeds of the bonds issued and the related capital expenditures not required to be accounted for in another capital projects fund

State of Rhode Island and Providence Plantations
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The State reports the following major proprietary funds:

State Lottery Fund. The State Lottery Fund operates games of chance for the purpose of generating resources for the State's General Fund.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence on behalf of the State.

Employment Security Fund. This fund accounts for the State's unemployment compensation benefits. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government and interest income.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds. These funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes and where a separate fund is legally mandated.

Capital Projects Funds. These funds reflect transactions related to resources received and used for the acquisition, construction, or improvement of capital facilities of the State and its component units.

Debt Service Fund. This fund accounts for resources obtained and used for the payment of interest and principal on bonds that are funded primarily through taxes.

Permanent Fund. The Permanent School Fund accounts for certain appropriations and the earnings thereon, which are used for the promotion and support of public education.

Proprietary Fund Types:

Internal Service Funds. These funds account for fleet management, workers' compensation, unemployment compensation, industrial prison operations, computer and related data processing services, surplus property, telecommunications and other utilities, purchasing, and records maintenance.

Fiduciary Fund Types:

Pension Trust Funds. These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Benefit Trust, and Judicial Benefit Trust, which accumulate resources for pension benefit payments to qualified employees.

Private Purpose Trust Fund. The Touro Jewish Synagogue Fund accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

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Agency Funds. These funds account for assets held by the State pending distribution to others.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, in the absence of specific guidance from GASB pronouncements, pronouncements of the Financial Accounting Standards Board issued on or before November 30, 1989 have been followed.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Cash and Cash Equivalents

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase.

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Assets. Cash overdrafts, if any, are reported as to due to other funds along with the applicable due from other funds.

F. Funds on Deposit with Fiscal Agent

Funds on deposit with fiscal agent in the capital projects funds and enterprise fund are the unexpended portion of certificates of participation and funds held by the United States Treasury Department for the payment of unemployment benefits, respectively.

G. Investments

Investments are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than a forced or liquidation sale. Short-term investments are stated at amortized cost, which approximates fair value.

The pension trust funds may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. By policy, no more than 50% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (U.S. dollars).

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H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience.

I. Due From Other Governments and Agencies

Due from other governments and agencies is primarily comprised of amounts due from the federal government for reimbursement-type grant programs.

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity on the government-wide financial statements. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

In the fund financial statements, transactions for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund. Reimbursements of expenditures/expenses made by one fund for another are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the reimbursed fund. Transfers represent flows of assets between funds of the primary government without equivalent flows of assets in return and without a requirement for payment.

K. Inventories

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase. Inventories of the proprietary funds are stated at cost. Inventories of university and colleges are stated at the lower of cost (first-in, first-out and retail inventory method) or market, and consist primarily of bookstore and dining, health and residential life services items. Inventories of all other component units are stated at cost.

L. Capital Assets

Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, and similar assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the State as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

The estimates of historical costs of land, buildings, and improvements were derived by factoring price levels from the current period to the time of acquisition. In cases where the acquisition date was not determinable, the date of acquisition was estimated. Infrastructure constructed prior to July 1, 2001 has not been reported. This information will be included in future reports. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Interest incurred during the construction of capital facilities is not

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capitalized. However, certain component units, R.I. Economic Development Corporation, R.I. Resources Recovery Corporation, and Narragansett Bay Commission, have capitalized interest.

Capital assets utilized in the governmental funds are recorded as capital outlay expenditures in the governmental fund financial statements. Depreciation is recorded in the government-wide financial statements, as well as the proprietary funds and component units financial statements. Capital assets of the primary government and its component units are depreciated using the straight-line method over the assets' estimated useful life.

Capital assets of the primary government are depreciated over the following estimated useful lives:

Assets	Years
Buildings	20-50
Land improvements	20
Infrastructure	30
Leasehold improvements	Term of Lease
Leasehold land improvements	Term of Lease
Building renovations	10-20
Trailers	10
Furniture and equipment	3-10
Computer systems	5
Motor vehicles	3-10

M. Bonds Payable

In governmental fund types, bond discounts/premiums and issuance costs are recognized in the current period; bond proceeds are recorded net of these amounts. Bond discounts, premiums and issuance costs for the government-wide financial statements and for proprietary fund types are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable.

The R.I. Convention Center Authority has entered into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

N. Obligations under Capital Leases

The construction and acquisition of certain State office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by the R.I. Refunding Bond Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the State (See Note 7(D)).

O. Accrued Liabilities

Accrued liabilities generally represent accrued salary and fringe benefits in the governmental fund types and accrued interest payable, accrued salaries and accrued vacation and sick leave in the proprietary fund types.

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P. Compensated Absences

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. For governmental fund types, such obligations are recognized when paid and for proprietary fund types, they are recorded as fund liabilities.

Q. Fund Balances

Reserved fund balances represent amounts which are (1) not appropriable for expenditure or (2) legally segregated for a specific future use.

Designated fund balances represent amounts segregated to indicate management's tentative plans or intent for future use of financial resources.

R. New Accounting Pronouncements

The State implemented the following new accounting standards issued by the Governmental Accounting Standards Board (GASB) for the fiscal year ended June 30, 2002:

- Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments,
- Statement No. 35, Basic Financial Statements--and Management's Discussion and Analysis--for Public Colleges and Universities,
- Statement No. 37, Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments: Omnibus, and
- Statement No. 38, Certain Financial Statement Note Disclosures.

Statement No. 34, as amended by Statement No. 37, represents a significant change to the financial reporting model used by the State. Significant changes include the addition of entity-wide financial statements, which summarize information for governmental activities, business-type activities and discretely presented component units. These statements are prepared under the full accrual basis of accounting, as opposed to the modified accrual basis of accounting used in the governmental fund financial statements. Infrastructure assets are now required to be reported as capital assets on the entity-wide statement of net assets. Under the provisions of Statement No. 34, the State opted to report only the current year acquisitions. These assets were not previously required to be included in the financial statements. Assets previously reported in the general fixed asset account group are now reported as a reconciling item between the governmental fund financial statements and the entity-wide financial statements. Liabilities previously reported in the general long-term debt account group are similar reconciling items.

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Under Statement No. 34, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. Statement No. 34 defines the general fund as a major fund and management determined that the intermodal surface transportation fund should be reported as a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 10% of the respective total for all funds of that type, and
- Total assets, liabilities, revenues, or expenditures/expenses of that fund are at least 5% of the same respective total for all funds being evaluated.

Statement No. 34 also reclassified certain funds or redefined some fund types. The following are the funds of the State that were affected:

<u>Fund Name</u>	<u>Fiscal Year 2001</u>	<u>Fiscal Year 2002</u>
Employment Security	Expendable Trust	Enterprise
Permanent School	Nonexpendable Trust	Permanent
Touro Jewish Synagogue	Nonexpendable Trust	Private Purpose Trust

Statement No. 38; which was required to be implemented in conjunction with Statement No. 34; modifies, establishes or rescinds certain financial disclosure requirements.

S. Change in Presentation

The R.I. Convention Center Authority was reclassified from a discretely presented component unit to a proprietary type blended component unit. Certain beginning net assets on the Statements of Changes in Net Assets have been restated to conform to either GASB 34 or the State's change in presentation.

Note 2. Budgeting and Budgetary Control

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

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Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative branch and the Justice Link program.

Note 3. Cash, Cash Equivalents and Investments

Cash

Primary Government

At June 30, 2002, the carrying amount of the State's cash deposits was \$163,180,000 and the bank balance was \$158,416,000. Of the bank balance, \$1,014,000 was covered by federal depository insurance. The remaining amount, \$157,402,000 was uninsured and uncollateralized. The carrying amount and bank balance include \$14,713,000 of certificates of deposit.

On February 13, 2002, the General Fund borrowed \$20,000,000 from the R.I. Temporary Disability Fund to cover a cash shortfall as permitted under RIGL 35-3-23. This loan was repaid in full as of June 30, 2002 with interest at the rate of 1.72%, which was based on the U.S. Treasury Bill rate.

During fiscal year 2002, the State issued \$90 million of tax anticipation notes at an interest rate of 2.250%. The notes were redeemed as of June 30, 2002.

Fiduciary Trust Funds

At June 30, 2002, the carrying amount of the fiduciary trust funds' cash deposits was \$4,000,000 and the bank balance was \$4,168,341. The bank balance was covered by federal depository insurance. The carrying amount and the bank balance include \$4,000,000 of certificates of deposit.

Component Units

At June 30, 2002, the carrying amount of the component units' cash deposits was \$272,305,000 and the bank balance was \$283,865,000. Of the bank balance, \$2,443,000 was covered by federal depository insurance and \$207,431,000 was collateralized with investments held by a bank in a component unit's name. The remaining amount, \$73,991,000 was uninsured and uncollateralized. The carrying amount and the bank balance include \$4,401,000 of certificates of deposit.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed

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by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government was required to be collateralized at June 30, 2002.

Investments

The State Investment Commission (Commission) is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital."

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies.

Investments of certain component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The State's investments (expressed in thousands) are categorized in the following table to give an indication of the level of risk assumed by the entity at June 30, 2002.

Category 1: Insured or registered, or securities held by the State or its agent in the State's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

Primary Government	Category			Fair Value
	1	2	3	
U.S. Government and agency securities	\$ 126,593	\$	\$	\$ 126,593
Commercial Paper	16,788			16,788
Repurchase Agreements	34,553		19,434	53,987
	<u>\$ 177,934</u>	<u>\$</u>	<u>\$ 19,434</u>	<u>197,368</u>
Money Market Mutual Funds				182,025
Other				15,073
				<u>394,466</u>
Less amounts classified as cash equivalents				<u>359,273</u>
Investments				<u>\$ 35,193</u>

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Fiduciary Funds	Category			Fair Value
	1	2	3	
U.S. Government and agency securities				
Not on security loan	\$ 469,253	\$	\$	\$ 469,253
On loan for securities collateral	24,906			24,906
Repurchase Agreements	821			821
Corporate Bonds	706,159	106		706,265
Equity Securities				
Not on security loan	830,351	1,173		831,524
On loan for securities collateral	123,685			123,685
Foreign Securities				
Not on security loan	818,622			818,622
On loan for securities collateral	64,499			64,499
Unit Investment Trust	1,406,148			1,406,148
Other		29		29
	<u>\$ 4,444,444</u>	<u>\$ 1,308</u>	<u>\$</u>	<u>4,445,752</u>
Money Market Mutual Funds				165,927
Real Estate and Venture Capital Limited Partnerships				288,874
Investments held by broker-dealers under securities loans with cash collateral				515,306
Securities lending short-term collateral investment pool				527,158
Investments of Statutory Deposits Held in Trust				84,304
Other				4,526
				<u>6,031,847</u>
Less amounts classified as cash equivalents				<u>16,078</u>
Investments				<u>\$ 6,015,769</u>

Component Units	Category			Fair Value
	1	2	3	
U.S. Government and agency securities	\$ 128,052	\$ 180,267	\$ 8,034	\$ 316,353
Money Market			21,107	21,107
Commercial Paper	186,565			186,565
Repurchase Agreements	90,519	2,860	35,080	128,459
Corporate Bonds			957	957
Corporate Notes	348			348
Equity Securities		1,378	4,863	6,241
Investment Agreements	5,812			5,812
Other	200	650	150	1,000
	<u>\$ 411,496</u>	<u>\$ 185,155</u>	<u>\$ 70,191</u>	<u>666,842</u>
Money Market Mutual Funds				40,926
Investment Agreements				586,514
Other				147
				<u>1,294,429</u>
Less amounts classified as cash equivalents				<u>252,974</u>
Investments				<u>\$ 1,041,455</u>

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Derivatives and Other Similar Investments

Primary Government

Some of the State of Rhode Island Employees' Retirement System's (System) investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts and mortgage-backed securities. Through the Unit Investment Trusts (UIT), the System also indirectly holds derivative type instruments. Information on the extent of the use, and holdings of derivative securities by the UITs is not readily available.

Forward Foreign Currency Contracts – The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. These contracts involve risk in excess of the amount reflected in the System's Statements of Plan Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the System has in that particular currency contract. By policy, no more than 50% of actively managed Foreign Equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The System may use futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. Buying futures tends to increase the System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument, or hedge other System investments. Losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

Mortgage-Backed Securities – The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in aggregate as U.S. Government and Agency Securities in the disclosure of custodial credit risk. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations. The System may invest in interest-only (IO) and principal-only strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Short Sales – The Unit Investment Trusts (UIT) may sell a security they do not own in anticipation of a decline in the fair value of that security. Short sales may increase the risk of loss to the UIT when the price of a security underlying the short sale increases and the UIT is subject to a higher cost to purchase the security in order to cover the position.

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Securities Lending

Policies of the State Investment Commission permit use of investments to enter into securities lending transactions. The System has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the System's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at 102% of the market value of the domestic securities on loan and 105% of the market value of the international securities on loan. There are no restrictions on the amount of loans that can be made. There have been no violations of the provisions of the contract. Securities on loan at year-end for cash collateral are presented as not categorized in the preceding table. Securities on loan for noncash collateral are classified according to the category for the collateral. The contract with the lending agent requires them to indemnify the System if the borrowers fail to return the securities. Either the System or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool for an average duration of 69 days and a weighted average maturity of 144 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The System is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrower or lending agent.

At June 30, 2002, System's management believes the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers do not exceed the amounts the borrowers owe the System. The securities on loan at year-end were \$540,400,489 (fair value), and the collateral received for those securities on loan was \$552,779,734 (fair value).

Note 4. Receivables

Receivables at June 30, 2002 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	\$ 232,246	\$ 11,033	\$	\$ 2,700	\$ (49,845)	\$ 196,134
Intermodal Surface Transportation	11,392	106			(133)	11,365
Bond Capital						
Other Governmental	27,193	15,545	4		(3,122)	39,620
Internal Service		4,201		1,022		5,223
Total - governmental activities	\$ 270,831	\$ 30,885	\$ 4	\$ 3,722	\$ (53,100)	\$ 252,342
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	\$ 5,387					
Intermodal Surface Transportation		\$ 4,396				
Business-type activities:						
State Lottery		7,937			(343)	7,594
Convention Center		2,185	143		(105)	2,223
Employment Security	32,096	11,418			(9,993)	33,521
Total - business-type activities	\$ 32,096	\$ 21,540	\$ 143	\$	\$ (10,441)	\$ 43,338
Component Units	\$	\$ 110,730	\$ 34,058	\$ 2,153,876	\$ (45,875)	\$ 2,252,789

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Component Units

Loans receivable of the R.I. Housing and Mortgage Finance Corporation are secured by a first lien on real and personal property and, in some instances, are federally insured. Loans receivable of the R.I. Student Loan Authority are insured by the R.I. Higher Education Assistance Authority, which in turn has a reinsurance agreement with the federal government. The R.I. Clean Water Finance Agency provides loans to municipalities, sewer commissions, or wastewater management districts in the State for constructing or upgrading water pollution abatement projects.

Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2002, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General Fund	\$ 26,810	\$ 2,958
Intermodal Surface Transportation Fund	15,499	0
Bond Capital	4	35,564
Other		
RI Underground Storage Tank Financial Responsibility	117	546
RI Temporary Disability Insurance		2,729
Providence River Relocation Project	204	205
Debt Service Fund	173	3,550
RI Clean Water Environmental Trust Fund	239	2
Total Other	733	7,032
Total Governmental	43,046	45,554
Proprietary Funds		
Enterprise		
RI Lottery		2,142
RI Convention Center Authority		1,659
Employment Security Trust Fund		61
Total Enterprise	0	3,862
Internal Service		
Assessed Fringe Benefits		2,932
Central Utilities	1,238	
Energy Revolving		39
Information Processing	3,548	294
Central Mail	455	1
Centrex		158
Howard Communications	63	
Central Pharmacy	1,472	
Central Laundry	105	
Automotive Maintenance	533	
Central Distribution Center	255	
Correctional Industries	2,028	
Records Center	97	
Total Internal Service	9,794	3,424
Totals	\$ 52,840	\$ 52,840

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Note 6. Capital Assets

The capital asset activity of the reporting entity consists of the following (expressed in thousands):

Primary Government
 Governmental

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 345,120	\$ 28,065	\$	\$ 373,185
Construction in progress	10,680	20,973		31,653
Total capital assets not being depreciated	<u>355,800</u>	<u>49,038</u>		<u>404,838</u>
Capital assets being depreciated:				
Land improvements	3,209			3,209
Buildings	368,762	691		369,453
Building Improvements	188,868	18,061		206,929
Furniture and equipment	129,759	17,659	(3,702)	143,716
Infrastructure		118,277		118,277
Total capital assets being depreciated	<u>690,598</u>	<u>154,688</u>	<u>(3,702)</u>	<u>841,584</u>
Less accumulated depreciation for:				
Buildings	116,629	7,179		123,808
Building Improvements	80,196	9,884		90,080
Land improvements	1,648	160		1,808
Furniture and equipment	89,680	15,464	(3,702)	101,442
Infrastructure		1,971		1,971
Total accumulated depreciation	<u>288,153</u>	<u>34,658</u>	<u>(3,702)</u>	<u>319,109</u>
Total capital assets being depreciated, net	<u>402,445</u>	<u>120,030</u>		<u>522,475</u>
Governmental activities capital assets, net	<u>\$ 758,245</u>	<u>\$ 169,068</u>	<u>\$</u>	<u>\$ 927,313</u>

The current period depreciation was charged to the governmental functions on the Statement of Activities as follows:

General government	\$ 7,727
Human services	10,167
Education	1,300
Public safety	9,283
Natural resources	1,661
Transportation	4,520
Total depreciation expense - governmental activities	<u>\$ 34,658</u>

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Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 38,032	\$	\$	\$ 38,032
Construction in progress		1,336		1,336
Total capital assets not being depreciated	<u>38,032</u>	<u>1,336</u>		<u>39,368</u>
Capital assets being depreciated:				
Buildings	227,127	216	(7)	227,336
Machinery and equipment	15,571	2,895		18,466
Total capital assets being depreciated	<u>242,698</u>	<u>3,111</u>	<u>(7)</u>	<u>245,802</u>
Less accumulated depreciation for:				
Buildings	55,814	7,690	(3)	63,501
Machinery and equipment	10,836	1,811		12,647
Total accumulated depreciation	<u>66,650</u>	<u>9,501</u>	<u>(3)</u>	<u>76,148</u>
Total capital assets being depreciated, net	<u>176,048</u>	<u>(6,390)</u>	<u>(4)</u>	<u>169,654</u>
Business-type activities capital assets, net	<u>\$ 214,080</u>	<u>\$ (5,054)</u>	<u>\$ (4)</u>	<u>\$ 209,022</u>

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 68,133	\$ 7,954	\$ (2,063)	\$ 74,024
Construction in progress	139,813	136,678	(68,118)	208,373
Total capital assets not being depreciated	<u>207,946</u>	<u>144,632</u>	<u>(70,181)</u>	<u>282,397</u>
Capital assets being depreciated:				
Land improvements	70,951	4,702		75,653
Buildings	728,173	101,020	(612)	828,581
Machinery and equipment	190,675	30,361	(9,559)	211,477
Infrastructure	255,836	130		255,966
Total capital assets being depreciated	<u>1,245,635</u>	<u>136,213</u>	<u>(10,171)</u>	<u>1,371,677</u>
Less accumulated depreciation for:				
Buildings	255,475	26,160	(492)	281,143
Land improvements	35,075	7,075		42,150
Machinery and equipment	102,931	18,851	(9,442)	112,340
Infrastructure	71,850	5,352		77,202
Total accumulated depreciation	<u>465,331</u>	<u>57,438</u>	<u>(9,934)</u>	<u>512,835</u>
Total capital assets being depreciated, net	<u>780,304</u>	<u>78,775</u>	<u>(237)</u>	<u>858,842</u>
Total capital assets, net	<u>\$ 988,250</u>	<u>\$ 223,407</u>	<u>\$ (70,418)</u>	<u>\$ 1,141,239</u>

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Note 7. Long-Term Obligations

Long-term obligations include bonds, notes and loans payable, obligations under capital leases, compensated absences, and other long-term liabilities.

A. Bonds Payable

At June 30, 2002, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Proprietary Type		Principal	Interest
	Principal	Interest	Principal	Interest		
2003	\$ 48,595	\$ 40,728	\$ 6,075	\$ 14,981	\$ 132,311	\$ 168,652
2004	52,292	37,778	7,685	14,690	203,809	166,416
2005	57,946	34,948	9,380	14,327	150,418	157,481
2006	54,414	37,899	9,825	13,887	85,776	151,613
2007	51,433	33,852	10,290	13,426	76,272	147,735
2008 - 2012	236,559	111,107	59,300	59,386	396,721	674,192
2013 - 2017	213,415	45,538	75,315	43,586	491,271	563,075
2018 - 2022	101,495	7,153	95,310	23,869	479,611	442,432
2023 - 2027			46,255	4,445	480,248	305,333
2028 - 2032					500,153	195,469
2033 - 2037					465,470	115,428
2038 - 2042					217,905	42,725
	<u>\$ 816,149</u>	<u>\$ 349,003</u>	<u>\$ 319,435</u>	<u>\$ 202,597</u>	<u>\$ 3,679,965</u>	<u>\$ 3,130,551</u>

Primary Government

Current interest bonds of the State are serial bonds with interest payable semi-annually and multi-modal variable rate demand bonds. Capital appreciation bonds are designated as College and University Savings Bonds. The accreted interest is recognized as a current year expense in the governmental activities on the statement of activities. These bonds mature from 2006 to 2009 with all interest payable at maturity.

Included in the current interest bonds is \$28,165,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through July 2003. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of

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1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

Revenue bonds of the R.I. Refunding Bond Authority (RIRBA) are secured by lease rentals payable by the State pursuant to lease agreements relating to projects financed by the authority and leased to the State. Proceeds from the RIRBA bonds have been used (1) to loan funds to the State to effect the advance refunding of general obligation bonds issued by the State in 1984; (2) to finance construction and renovation of certain buildings, and (3) to finance acquisition of equipment used by various State agencies.

Revenue bonds of the R.I. Convention Center Authority (RICCA) were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve and (f) pay costs of issuance. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited.

Component Units

Revenue bonds of the University of Rhode Island (URI), Rhode Island College (RIC), and Community College of Rhode Island (CCRI) were issued under trust indentures and are collateralized by a pledge of revenues from the facilities financed. The facilities include housing, student union (including bookstores) and dining operations. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under a loan and trust agreement between the R.I. Health and Educational Building Corporation (RIHEBC) (a proprietary component unit) and the Board of Governors for Higher Education acting for URI, RIC, and CCRI. The agreement provides for RIHEBC's issuance of the bonds with a loan of the proceeds to the university and colleges and the payment by the university and colleges to RIHEBC of loan payments that are at least equal to debt service on the bonds. The bonds are secured by a pledge of revenues of the respective institutions.

Bonds of the R.I. Housing and Mortgage Finance Corporation (RIHMFC) are special obligations of RIHMFC, payable from the revenue, prepayments and all the funds and accounts pledged under the various bond resolutions to the holders of the bonds. The proceeds of the bonds were generally used to acquire mortgage loans which are secured principally by a first lien upon real property and improvements.

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island

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Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

The proceeds of the revenue bonds of the R.I. Clean Water Finance Agency provide funds to make low interest loans to municipalities in the State and quasi-state agencies to finance or refinance the costs of construction or rehabilitation of water pollution abatement projects.

Bonds of the Narragansett Bay Commission (NBC) represent the NBC's portion of the State's general obligation bonds. Debt service on NBC's portion is recovered through charges levied for services provided to users of its facilities. These bonds are guaranteed by the State.

Bonds of the R.I. Water Resources Board Corporate were issued to provide financing to various cities, towns, private corporations and companies engaged in the sale of potable water and the water supply business.

The Tobacco Settlement Financing Corporation (TSFC) issued \$685,390,000 of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues (TSR's) under the Master Settlement Agreement and the Consent Decree and Final Judgment (the "MSA").

A summary of general obligation bonds authorized by the voters and unissued (expressed in thousands) at June 30, 2002 is shown below.

	Authorized and Unissued July 1	Authorized	Issued	Extinguished	Authorized and Unissued June 30
General Obligation Bonds Supported by Taxes:					
Capital Development Plan - 1986	\$ 160	\$	\$ 155	\$	\$ 5
Capital Development Plan - 1988	970		505		465
Capital Development Plan - 1989	3,506				3,506
Capital Development Plan - 1990	18,390		5,070		13,320
Capital Development Plan - 1994	8,115				8,115
Capital Development Plan - 1996	27,053		2,990		24,063
Capital Development Plan - 1998	27,855		9,380		18,475
Capital Development Plan - 2000	193,460		100,475		92,985
R.I. Economic Development Fund	450		445		5
Underground Storage Tank Replacement Revolving Loan Fund					
Narragansett Bay Water Quality Management District Commission Fund	12,935		12,145		790
Clean Water Act Environmental Trust Fund	3,840				3,840
Open Space and Recreational Area Fund	4,438		4,235		203
Drinking Water Protection Fund	3,415				3,415
Clean Water Finance Agency - Water Pollution Revolving Loan Fund	13,960				13,960
General Obligation Bonds Supported by Taxes	<u>318,547</u>	-	<u>135,400</u>	-	<u>183,147</u>
R. I. Industrial-Recreational Building Authority	80,000				80,000
Total	<u>\$ 398,547</u>	<u>\$ -</u>	<u>\$ 135,400</u>	<u>\$ -</u>	<u>\$ 263,147</u>

In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

The amount of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$20,861,114 at June 30, 2002 (See Note 21). The insured mortgages are guaranteed by the State.

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See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2002 are as follows:

Component Units	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	\$ 2,221
R.I. Housing and Mortgage Finance Corporation bank notes, 4.375% to 6.71% interest, payable through 2008.	5,013
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 6.75% interest, payable through 2005	301
	<hr style="width: 100%;"/>
	7,535
Less: current payable	(1,067)
	<hr style="width: 100%;"/>
	<u>\$ 6,468</u>

C. Loans Payable

Component Units

Loans payable represent liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) (\$75,748,995) and to the R.I. Refunding Bond Authority (\$15,000). The loans payable to the RICWFA are for projects financed by that agency. The University of Rhode Island (URI) has an outstanding \$544,604 loan from the Board of Governors for Higher Education to purchase certain high technology equipment and one from the Rhode Island State Energy Office for \$251,340 to finance the installation of energy conservation measurers in various buildings. It also includes Community College of Rhode Island's (CCRI) loan in the amount of \$400,000 from the Energy Revolving Loan Fund (an internal service fund).

D. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other fixed assets.

The State's obligation under capital leases at June 30, 2002 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds.

Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

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The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2002.

Fiscal Year Ending June 30	COPS	Other	Total
2003	\$ 13,360	\$ 1,211	\$ 14,571
2004	13,271	1,211	14,482
2005	12,134	1,212	13,346
2006	10,134	1,211	11,345
2007	11,455		11,455
2008 - 2012	50,900		50,900
2013 - 2017	37,817		37,817
2018 - 2022	9,022		9,022
2023 - 2027			0
Total future minimum lease payments	<u>158,093</u>	<u>4,845</u>	<u>162,938</u>
Amount representing interest	(45,429)	(580)	(46,009)
Present value of future minimum lease payments	<u>\$ 112,664</u>	<u>\$ 4,265</u>	<u>\$ 116,929</u>

Component Units

The University of Rhode Island (URI), Rhode Island College (RIC), Community College of Rhode Island (CCRI), and R.I. Public Telecommunications Authority (RIPTCA) obligations under capital leases consist, primarily, of construction of facilities and equipment acquisitions financed by the R.I. Refunding Bond Authority, a blended component unit.

Capital lease obligations of the R.I. Airport Corporation (RIAC), a subsidiary and component unit of the R.I. Economic Development Corporation (RIEDC), are for annual payments to the State equal to the principal and interest for airport related general obligation bonds issued by the State.

The following is a summary of the material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2002.

Fiscal Year Ending June 30	URI	RIC	CCRI	CFSD	RIEDC	RIPTCA	NBC
2003	\$ 1,586	\$ 64	\$ 156	\$ 9	\$ 5,353	\$ 827	\$ 134
2004	1,551	64	156		4,309	820	100
2005	1,463	64	156		3,934	806	73
2006	1,300	64	156		3,598	806	27
2007	1,279	64	156		3,404	807	
2008 - 2012	6,363	105	781		11,954	3,295	
2013 - 2017	6,327		782		5,350		
2018 - 2020	3,775		782		159		
2023 - 2027			313				
Total future minimum lease payments	<u>23,644</u>	<u>425</u>	<u>3,438</u>	<u>9</u>	<u>38,061</u>	<u>7,361</u>	<u>334</u>
Amount representing interest	(7,631)	(116)	(1,533)	0	(9,389)	(1,581)	(37)
Present value of future minimum lease payments	<u>\$ 16,013</u>	<u>\$ 309</u>	<u>\$ 1,905</u>	<u>\$ 9</u>	<u>\$ 28,672</u>	<u>\$ 5,780</u>	<u>\$ 297</u>

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E. Compensated Absences

State employees are granted vacation and sick leave in varying amounts based upon years of service. At the termination of service, the employee is paid for accumulated unused vacation leave. Also, the employee is entitled to payment of a percentage of accumulated sick leave at retirement. Payment is calculated at their then-current rate of pay. For the fiscal year ended June 30, 2002, the State calculated the liability for accrued sick leave for only those employees that are eligible for retirement (vested). Therefore, the July 1 balance was reduced by approximately \$15 million to reflect this change.

F. Other Long-Term Liabilities

Income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations, has been included in the general long-term debt account group. These amounts are generally payable to the federal government five years after the bond issuance date.

The long-term debt portion of violent crimes' claims is included in the general long-term debt account group. Also included is an advance from the Federal Highway Authority Right of Way Revolving Fund that will be used to acquire land and rights-of-way for the Quonset access road project. The amount included for negotiated settlements represents the amount due to correctional officers and is payable over three years. Retainage payable is also included in other long-term debt since the related construction projects are not expected to be completed in the subsequent fiscal period. Finally, an amount due to the federal government is being reported as long-term debt because the payment schedule coincides with the repayment of a long-term loan issued to a private employer.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2002, the following changes (expressed in thousands) occurred in long-term debt:

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Primary Government

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
General obligation bonds payable:						
Current interest bonds	\$ 829,034	\$ 168,990	\$ (315,590)	\$ 682,434	\$ 33,481	\$ 648,953
Capital appreciation bonds	24,816		(24,206)	610		610
Accreted interest on capital appreciation bonds	34,164	4,904	(34,657)	4,411		4,411
Revenue bonds - RIRBA	147,385		(14,280)	133,105	14,885	118,220
Deferred costs		6,497		6,497		6,497
Bonds payable	<u>1,035,399</u>	<u>180,391</u>	<u>(388,733)</u>	<u>827,057</u>	<u>48,366</u>	<u>778,691</u>
Certificates of Participation (COP)	126,470		(13,805)	112,665	8,050	104,615
Other capital leases	8,122	314	(1,631)	6,805	1,651	5,154
Obligations under capital leases	<u>134,592</u>	<u>314</u>	<u>(15,436)</u>	<u>119,470</u>	<u>9,701</u>	<u>109,769</u>
Compensated absences	50,074	45,454	(40,881)	54,647	35,217	19,430
Other long-term liabilities	36,177	1,365	(10,409)	27,133	9,131	18,002
	<u>\$ 1,256,242</u>	<u>\$ 227,524</u>	<u>\$ (455,459)</u>	<u>\$ 1,028,307</u>	<u>\$ 102,415</u>	<u>\$ 925,892</u>
Business type activities						
Revenue bonds	\$ 315,805	\$ 101,315	\$ (97,685)	\$ 319,435	\$ 6,075	\$ 313,360
Less: deferred amounts						
Issuance discounts	(6,696)		505	(6,191)		(6,191)
On refunding	(14,097)	(6,462)		(20,559)		(20,559)
Bonds payable	<u>295,012</u>	<u>94,853</u>	<u>(97,180)</u>	<u>292,685</u>	<u>6,075</u>	<u>286,610</u>
Other long-term liabilities	2,053		(900)	1,153	1,153	
	<u>\$ 297,065</u>	<u>\$ 94,853</u>	<u>\$ (98,080)</u>	<u>\$ 293,838</u>	<u>\$ 7,228</u>	<u>\$ 286,610</u>

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds, revenue bonds and certificates of participation (COP) by placing the proceeds of the new bonds or COP, or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds or COP. Accordingly, the trust account assets and the liabilities for the defeased bonds or COP are not included in the basic financial statements. On June 30, 2002, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	
(includes \$1,370,000 of NBC)	\$ 364,250
Component Units:	
R.I. Clean Water Finance Agency	14,935
R.I. Depositors Economic Protection Corporation	550,305
R.I. Economic Development Corporation	28,820
R.I. Turnpike And Bridge Authority	40,600

In March 2002, the State issued \$39,805,000 Consolidated Capital Development Loan of 2002, Refunding Series A, with interest rates ranging from 2.45% to 3.85%, maturing from 2003 through 2007. The proceeds were used to advance refund \$38,410,000 of 1992 General Obligation Refunding Bonds, Series A. The net proceeds from the sale of the refunding bonds were used to purchase U. S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from long-term obligations. The refunding decreased total debt service payments over the next 7 years by \$2,082,685 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,552,630.

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The above amounts include \$6,215,000 of refunding bonds issued on behalf of Narragansett Bay Commission (NBC), a component unit, to advance refund \$5,974,000 of outstanding bonds. This advance refunding decreased NBC's total debt service payments over the next 7 years by \$432,704 and resulted in an economic gain of \$328,269.

On June 27, 2002 the State used Tobacco Settlement Asset-Backed Bonds to defease \$295,505,000 in debt maturities which included \$4,650,000 of Certificates of Participation. Over the next 19 years, the State will reduce its interest payments by \$47,945,895.

I. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2002 was \$120,000,000, \$1,178,526,861 and \$360,225,000, respectively.

Note 8. Net Assets

Governmental-Wide Unrestricted Net Assets

	Governmental Activities (in thousands)	
Deficit	\$ (449,831)	
General Revenue	31,039	Unrestricted balance
Appropriations carried forward:		
General Revenues	7,812	General revenues carried forward for original purpose
Restricted Revenues	36,280	Restricted revenues carried forward for original purpose
Other	6,645	Principally capital accounts carried forward for original purpose
Special Revenue	147,459	ISTEA, Tobacco Settlement Fund, Underground Storage Fund, RI Economic Policy Council
Capital Projects Fund	87,132	Committed for capital projects
Permanent Fund	786	Permanent School
Internal Service Funds	8,247	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	<u>\$ (124,431)</u>	

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Changes in General Fund Reserved Fund Balances

The State maintains certain reserves within the General Fund in accordance with the General Laws. These reserves accumulate in the General Fund until withdrawn by statute or used for the intended purposes pursuant to the enabling legislation.

The State maintains a budget reserve in the general fund. Annually, 2% of general revenues and opening surplus are set aside in this reserve account. Amounts in excess of 3% of the total general revenues and opening surplus are transferred to the bond capital fund to be used for capital projects, debt reduction or debt service. The reserve account, or any portion thereof, may be appropriated in the event of an emergency involving the health, safety or welfare of the citizens of the State or in the event of an unanticipated deficit in any given fiscal year. Such appropriations must be approved by a majority of each chamber of the General Assembly.

Appropriations carried forward can only be used for the same purpose as intended in the original budget as enacted by the General Assembly.

The following table summarizes the activity (expressed in thousands) of these reserve accounts for the fiscal year ended June 30, 2002:

	Reserved Fund Balance July 1, as restated	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 79,689	\$ 54,683	\$ (52,348)	\$ 82,024
Appropriations carried forward				
General revenue	11,056	7,812	(11,056)	7,812
Departmental restricted revenue	34,521	36,280	(34,521)	36,280
Operating transfers in	11,697	6,645	(11,697)	6,645
Total	<u>\$ 136,963</u>	<u>\$ 105,420</u>	<u>\$ (109,622)</u>	<u>\$ 132,761</u>

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Note 9. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts. Tax revenue on the Statement of Revenues, Expenditures and Fund Balances – Governmental Funds is reported net of the uncollectible amount and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred revenue. The detail of the general revenue taxes as stated on the Statement of Activities is presented below (expressed in thousands):

	<u>Taxes</u>
General Fund	
Personal Income Tax	\$ 811,075
General Business Taxes:	
Business Corporation Tax	24,441
Non-resident Contractor Tax	88
Franchise Tax	8,545
Gross Earnings Tax-Public Utilities	80,859
Income Tax-Financial Institutions	3,385
Tax on Insurance Companies	32,534
Tax on Deposits-Banking Institutions	1,138
Health Care Provider Assessment	8,010
Nursing Facilities Provider Assessments	20,336
Sub-total - General Business Taxes	<u>179,336</u>
Sales and Use Taxes:	
Sales and Use Tax	736,543
Providence Place Sales Tax	10,637
Motor Vehicle Tax	43,432
Rental Vehicle Surcharge	2,682
Fuel Use Tax on Motor Carriers	831
Cigarette Tax	79,445
Cigarette Floor Stock Tax	4,304
Smokeless Tobacco Tax	1,765
Alcoholic Beverage Import Fees	10,004
Tax on Mfg. of Beers, Liquors, etc.	35
Sub-total - Sales and Use Taxes	<u>889,678</u>
Other Taxes:	
Inheritance Tax	22,265
Simulcast Wagering	3,163
Jai Alai - Pari-mutuel Betting	72
Jai Alai - Tax on Breakage	2
Dog Racing - Pari-mutuel Betting	2,200
Dog Racing - Tax on Breakage	34
Realty Transfer Tax	2,679
Mobile Home Conveyance Tax	13
Sub-total - Other Taxes	<u>30,428</u>
Total - General Fund	<u>1,910,517</u>
R.I. Temporary Disability Fund	146,825
Intermodal Surface Transportation Fund	
Gasoline	130,000
Total Taxes	<u><u>\$ 2,187,342</u></u>

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Note 10. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2002 are presented below (expressed in thousands):

Fund Financial Statements

	Transfers	Description
Governmental activities		
General Fund		
Major Funds		
Intermodal Surface Transportation	\$ 50,872	Debt service
Bond Capital	55,641	Debt service
Tobacco Settlement Trust	135,000	Debt service
Lottery	214,279	Net income
Convention Center	1,659	Excess debt service
Other governmental funds		
Temporary Disability	828	Net Income
Debt Service	775	Debt service
Internal Service		
Energy Revolving	143	Net Income
Fiduciary Funds		
Employees' Retirement System	8,658	Fund administrative expenses
State Police Benefit Trust	15	Fund administrative expenses
Municipal Employees' Retirement system	1,263	Fund administrative expenses
Judicial Benefit Trust	10	Fund administrative expenses
ISTEA Fund		
Nonmajor Funds		
Capital Projects	44,861	Infrastructure
Bond Capital		
General Fund	52,348	Debt service
Economic Policy Council		
General Fund	3,250	Operating assistance
Total Governmental Activities	569,602	
Business-Type Activities		
Convention Center	16,969	Debt service
Total operating transfers	\$ 586,571	

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$12,938,404 for the fiscal year ended June 30, 2002

Most of the operating leases contain an option allowing the State, at the end of the initial lease term, to renew its lease at the then fair rental value. In most cases, it is expected that these leases will be renewed or replaced by other leases.

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The following is a summary of material future minimum rental payments (expressed in thousands) required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2002:

Fiscal Year Ending June 30	
2003	\$ 12,540
2004	11,964
2005	11,373
2006	8,628
2007	5,092
2008 - 2012	16,711
2013 - 2017	8,738
2018 - 2022	3,941
Total	<u>\$ 78,987</u>

The minimum payments shown above have not been reduced by any sublease receipts.

Note 12. Commitments

Encumbrances outstanding for the governmental funds were not available at fiscal year end.

The R.I. Economic Development Corporation (RIEDC) entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,600,000 in the first five years and \$3,560,000 in years 6 through 20.

The Employees' Retirement System of Rhode Island has contracted with a systems integration firm to design and build a new pension administration system. The total cost to the System is estimated at \$17.8 million, of which \$12.7 million has been expended through June 30, 2002. The remaining cost is estimated at \$5.1 million. Full implementation is expected by the second quarter of fiscal 2004. This will be financed in the same manner as other administrative expenses of the System.

The R.I. Convention Center Authority (RICCA) has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center, parking garages, and hotel. In addition, RICCA has entered into a licensing agreement with a major hotel chain that permits the hotel to use its name, trademark, reservation system and other services.

Component Units

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately \$10,438,000 which is expected to be funded from current available resources and future operations.

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The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$256,180,000 at June 30, 2002.

The R.I. Resource Recovery Corporation's (RIRRC) currently licensed landfill consists of areas known as Phases II, III, and IV. The capacity of Phase I was reached in May 1993. Phases II and III encompass 34 acres adjoining Phase I. Phase II consists of two areas, referred to as Area I and Area II. Waste disposal commenced on Area II in April 1993 and on Area I in March 1995. Phase III commenced in June 1997. Approximately \$10,621,000 in costs relating to Phase II and \$5,303,000 relating to Phase III have been incurred as of June 30, 2002, and are included in land and improvements in the financial statements. Phase IV consists of four eleven acre cells of which two cells began accepting refuse in September 2000. To date, \$25,672,059 has been expended on legal fees, permitting and engineering costs related to Phase IV, and other costs associated with readying the area for use, including relocation of a brook.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to operate a landfill in the current period. Based on RIRRC's engineers and independent engineering studies, it is estimated that these costs of closure and postclosure activities for Phase I, II and III will be approximately \$39,854,000. The liability at June 30, 2002 is approximately \$31,166,000, with \$8,201,000 remaining to be recognized. RIRRC recognizes an expense and a liability for these costs based on landfill capacity used to date. Based on the estimates of RIRRC's engineers, approximately 98% of landfill capacity for Phase II and III, which has approximately six months of estimated life remaining, has been used to date and approximately 43% of capacity of Phase IV has been used to date which has approximately two years of estimated life remaining. Amounts provided for closure and postclosure are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws and regulations. RIRRC has designated investments in the amount of \$13,200,567 to meet the financial requirements of closure and postclosure costs, and plans to increase these designated investments each year to enable it to pay the costs as they are incurred.

In prior years, the EPA issued administrative orders requiring the RIRRC to conduct environmental studies of the landfill and undertake various plans of action. Additionally, in 1986, the landfill was named to the EPA's Superfund National Priorities List. The majority of the studies were completed and were submitted to the EPA for review. During 1996, the RIRRC entered into a consent decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The consent decree, which was approved by the U.S. District Court on October 2, 1996, requires the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The trust is included in restricted assets held in trust on RIRRC's balance sheet. As of June 30, 2002, the market value of the trust was \$25,356,139. The present value of the estimated remaining total expenditures relating to groundwater contamination that will be required as a result of the consent decree is estimated to be approximately \$17,930,000 and is recorded in the financial statements, net of the amount included in the trust fund.

RIRRC is required by the R.I. Department of Environmental Management to restore certain wetlands which are located at the Central Landfill. Total costs for this project are estimated to be approximately \$6,100,000. As of June 30, 2002, the corporation has incurred approximately \$436,000 of engineering and subcontracting costs and estimates that it will incur \$5,570,000 for the project during the fiscal year ending June 30, 2003.

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RIRRC is committed, under various contracts and agreements, for a materials recovery facility and a methane gas collection-flare system.

In addition, RIRRC is required to grant funds to municipalities to assist them in organizing source separation and recycling programs in their communities.

RIRRC has entered into an agreement with the City of Cranston to furnish sewer and water services to RIRRC's Johnston facilities in exchange for payments by RIRRC.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$19,649,000 under various loan programs at June 30, 2002.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2002 remaining commitments on these contracts approximated \$1,200,000.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$2,645,962 at June 30, 2002.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$4,310,909 in student loan reserve funds over a period of five years, such that the total is returned by September 1, 2002. The entire amount was returned on August 30, 2002.

The University of Rhode Island, Rhode Island College and Community College of Rhode Island have begun a technology modernization of core administration systems. This is being accomplished system wide through the Office of Higher Education and will be financed over a seven-year period beginning in fiscal year 2000 at a cost of \$3,700,000, \$2,200,000, and \$2,500,000, respectively.

Note 13. Contingencies

Primary Government

The State is involved in various civil lawsuits which could result in monetary loss to the State. The lawsuits are in various developmental stages, some to the point that a favorable decision, with no or minimal loss is anticipated, others, where the outcome and amount of loss, if any, cannot be determined and others which are still in the discovery stage.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit. Any disallowances as a result of these audits become a liability of the State. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

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Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2002 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$195,409,054 and \$59,115,000 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately \$1,680,000 of the debt on the related economic development revenue bonds in fiscal year 2003.

Component Units

Tobacco Settlement Financing Corporation

In June 2002, the Corporation issued revenue bonds that are the sole obligation of the Corporation. The bonds are asset-backed instruments that are secured solely by the Tobacco Settlement Revenues (TSR's) receivable by the Corporation. The State sold to the Corporation its future rights in the (TSR's) under the Master Settlement Agreement and the Consent Decree and Final Judgement (the MSA). When the Corporation's obligations with the bonds have been fulfilled, the TSR's will revert back to the State.

The Corporation's rights to receive TSR's are expected to produce funding for its obligations. The TSR payments are dependent on a variety of factors, which include:

- the financial capability of the participating cigarette manufacturers to pay TSR's;
- future cigarette consumption which impacts the TSR payment; and
- future legal and legislative challenges against the tobacco manufacturers and the master settlement agreement that provides for the TSR payments.

Litigation has been filed against tobacco manufacturers as well as certain states and public entities. The lawsuits allege, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, state consumer protection laws; these actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations.

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R.I. Student Loan Authority

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of \$31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of \$69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The RISLA also maintains a standby letter of credit in the original stated amount of \$30,000,000 on its March 2000 issue. The letters of credit will expire on the earliest to occur: a) July 28, 2004, for the January 1995 and April 1996 issue, and March 15, 2003 for the March 2000 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

The RISLA also has an available \$20,000,000 line of credit. Interest is based upon one month London Inter-Bank Offer Rate (LIBOR) plus thirty basis points adjusted weekly. The line of credit is secured by eligible loans of RISLA. Minimum drawdowns on the line of credit are \$100,000 and all proceeds are to be used to purchase or originate eligible student loans. As of June 30, 2002, there was no outstanding balance.

R.I. Public Transit Authority

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2002.

R.I. Children's Crusade for Higher Education

The R.I. Children's Crusade for Higher Education has a \$500,000 line of credit agreement that matures on December 31, 2003. Interest is payable monthly at the prime rate. There was no outstanding balance at June 30, 2002.

Note 14. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees, which is subject to amendment by the general assembly, is established by the

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General Laws as listed below. In addition to the State, there are 40 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Dividend income is recorded on the ex-dividend date. The gains or losses on foreign currency exchange contracts are included in income in the period in which the exchange rates change. Gains and losses on contracts which hedge specific foreign currency denominated commitments are deferred and recognized in the period in which the transaction is completed. Investment transactions are recorded on a trade date basis.

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued by the respective fund manager. Short-term investments are stated at cost, which approximates fair value. Unit Investment Trusts (UIT) consist primarily of domestic and international institutional funds. The fair value of the UITs are based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

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Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below. The most recent actuarial information may be found in the separately issued audit report referred to above.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	5.59%	27.10%	30.66%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	3.67% and 4.22%		
Annual pension cost	\$62,565	\$2,405	\$1,458
Contributions made - state employees	\$31,802	\$2,405	\$1,458
Contributions made - teachers	\$30,763		
Actuarial valuation date	June 30, 1999	June 30, 1999	June 30, 1999
Actuarial cost method	Frozen Entry Age	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	16 years	23 years	28 years
Asset valuation method	5 Year Smoothed Market	5Year Smoothed Market	5Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.75% to 8.75%	5% to 15.00%	5.50%
Inflation	3.50%	3.50%	3.50%
Cost-of-living adjustments	3% compounded annually	\$1,500 per annum	3% of original retirement, compounding varies
Level of benefits established by:			
General Law(s)	36-8 to 10	42-28-22.1	8-3-16, 8-8-10.1, 8-8-2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/00	\$ 85,073	100%	\$ 0
	6/30/01	79,906	100%	0
	6/30/02	62,565	100%	
State Police Retirement Benefits Trust	6/30/00	1,509	100%	0
	6/30/01	1,820	100%	0
	6/30/02	2,405	100%	
Judicial Retirement Benefits Trust	6/30/00	1,008	100%	0
	6/30/01	1,164	100%	0
	6/30/02	1,458	100%	

Other

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts with the Teachers' Insurance and Annuity Association. Total expenditures by the institutions for such annuity contracts amounted to \$11,421,826 during the year ended June 30, 2002.

The R.I. Public Transit Authority has two pension plans that cover employees meeting certain eligibility requirements. Employer contribution paid in fiscal year 2002 was \$2,567,799. At January 1, 2002, the most recent valuation date, the total pension benefit obligation was \$40,368,420 and net assets available for benefits were \$19,114,761.

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Certain other component units have defined contribution pension and savings plans. For information regarding these pension and savings plans, please refer to the component units' separately issued financial reports.

Note 15. Postemployment Benefits

In accordance with the General Laws, postretirement health care benefits are provided to State employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The State's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2002, the State contributed 0.95% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2002 were \$5,004,743 net of retirees' contributions for the 3756 retirees receiving benefits.

In addition to the pension benefits described above, expenditures of \$908,098 were recognized for postretirement benefits provided under early retirement incentive programs (an average of \$937 for each of the 969 retirees covered by the plans).

The above plans are financed on a pay-as-you-go basis.

Note 16. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The Department of Administration pursuant to Chapter 36-13 of the General Laws administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Benefit payments are not available to employees earlier than the calendar year in which the participant attains age 70½, termination, retirement, death or "unforeseeable emergency".

Current Internal Revenue Service regulations require that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors. The plan assets also may be held in annuity contracts or custodial accounts, which are treated as trusts.

The State does not serve in a trustee capacity. Accordingly, the plan assets are not included in the financial statements.

Note 17. Fund Deficits

The R.I. Convention Center Authority, a blended component unit and major enterprise fund, has a deficit of \$55,100,000. This consists primarily of the negative \$84,944,000 investment in capital assets net of related debt. The deficit will be reduced by a combination of debt reduction and future increases in net assets.

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Note 18. Condensed Financial Statement Information

The condensed financial statement information for the discretely presented component units is presented (expressed in thousands) in the following schedules:

	RIHMFC	RISLA	RITBA	RIEDC	NBC
Other assets	\$ 2,038,783	\$ 860,854	\$ 40,285	\$ 192,857	\$ 36,020
Capital assets - nondepreciable			6,799	77,291	80,371
Capital assets - depreciable (net)		702	46,424	259,633	183,542
Due from primary government				585	17
Long term debt	1,570,039	782,405	37,240	282,053	91,080
Other liabilities	228,086	24,490	4,343	20,259	14,573
Due to primary government					
Net assets:					
Invested in capital assets, net of related debt	16,876	702	14,203	140,168	172,560
Restricted	205,741	51,898	5,515	64,122	45
Unrestricted	18,041	2,061	32,207	23,764	21,692
Operating expenses	108,894	38,369	3,714	41,855	23,952
Depreciation, depletion, and amortization	2,818	614	962	14,961	5,849
Program revenue	90,973	41,799	11,874	50,098	36,710
Net program (expense) revenue	(20,739)	2,816	7,198	(6,718)	6,909
Interest revenue	29,267	3,684	2,402	4,999	245
Gain (loss) on sale of assets			7	(234)	
Net increase in fair value of investments	1,237	(4)			
Miscellaneous					
Transfers from primary government				13,058	
Transfers (to) primary government					
Special and extraordinary items	(2,790)				
Change in net assets	6,975	6,496	7,685	8,857	13,340
Beginning net assets	233,683	48,165	44,240	219,197	180,957
Ending net assets	240,658	54,661	51,925	228,054	194,297

	RIHEBC	RIRRC	DEPCO	RIHEAA	RIPTA	RIIFC
Other assets	\$ 10,488	\$ 86,263	\$ 9,106	\$ 14,325	\$ 14,955	\$ 1,179
Capital assets - nondepreciable		17,550		194	20,143	
Capital assets - depreciable (net)	8	53,474		1,228	73,583	
Due from primary government					2,461	
Long term debt		19,945				
Other liabilities	112	56,611	466	1,277	17,264	562
Due to primary government					1,147	
Net assets:						
Invested in capital assets, net of related debt	8	51,485		1,422	93,726	
Restricted		(8,294)	8,640	8,234		
Unrestricted	10,376	37,540		4,814	(995)	617
Operating expenses	970	38,356	980	12,323	58,992	33
Depreciation, depletion, and amortization	3	11,369		203	6,854	
Program revenue	1,291	52,642	7,422	9,171	31,146	177
Net program (expense) revenue	318	2,917	6,442	(3,355)	(34,700)	144
Interest revenue	187	386	271	441	156	8
Gain (loss) on sale of assets		109			(100)	
Net increase in fair value of investments						
Miscellaneous						
Transfers from primary government				6,951	29,053	
Transfers (to) primary government		(3,000)	(17,509)		(783)	
Special and extraordinary items						
Change in net assets	505	23	(10,796)	4,031	17,562	152
Beginning net assets	9,879	80,708	19,436	10,439	75,169	465
Ending net assets	10,384	80,731	8,640	14,470	92,731	617

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	RICWFA	RIIRBA	RIWRBC	RIPTCA	RICCHE
Other assets	\$ 428,373	\$ 3,412	\$ 16,346	\$ 2,243	\$ 59,748
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	31	439		3,636	90
Due from primary government			76		
Long term debt	203,145		15,345	6,031	
Other liabilities	10,206	1,765	1,459	256	65,144
Due to primary government			1,144	5	
Net assets:					
Invested in capital assets, net of related debt	31	620		(1,324)	90
Restricted	210,774		(2,121)		
Unrestricted	4,248	1,647	595	1,732	(5,396)
Operating expenses	11,527	148	17	3,245	7,398
Depreciation, depletion, and amortization	101	14	113	717	51
Program revenue	35,606	243	1,489	2,951	(2,729)
Net program (expense) revenue	23,978	81	1,359	(1,011)	(10,178)
Interest revenue		73	330		295
Gain (loss) on sale of assets					
Net increase in fair value of investments			32	(213)	
Miscellaneous					
Transfers from primary government	62,610			1,158	1,752
Transfers (to) primary government					
Special and extraordinary items					
Change in net assets	86,588	154	868	(347)	(8,131)
Beginning net assets	128,465	2,113	(2,394)	755	2,825
Ending net assets	215,053	2,267	(1,526)	408	(5,306)

	TSFC	URI	RIC	CCRI	CFSD	Totals
Other assets	\$ 686,702	\$ 75,758	\$ 23,766	\$ 9,336	\$ 6,666	\$ 4,617,465
Capital assets - nondepreciable		74,621	2,441	1,985		282,397
Capital assets - depreciable (net)		152,698	48,089	33,969	1,296	858,842
Due from primary government					1,336	4,475
Long term debt	685,390	118,805	20,861	11,553	1,433	3,845,325
Other liabilities		48,761	14,560	4,087	3,631	517,912
Due to primary government				1,144		3,440
Net assets:						
Invested in capital assets, net of related debt		124,188	33,999	32,255	1,286	682,295
Restricted	1,312	12,543	8,202	821	1,331	568,763
Unrestricted		(1,222)	(3,326)	(4,570)	1,617	145,442
Operating expenses		267,312	84,605	74,269	39,017	815,976
Depreciation, depletion, and amortization		9,943	4,993	2,275	93	61,933
Program revenue		196,588	46,276	34,663	7,553	655,943
Net program (expense) revenue		(80,667)	(43,322)	(41,881)	(31,557)	(221,966)
Interest revenue	1,312				131	44,187
Gain (loss) on sale of assets						(218)
Net increase in fair value of investments		2,566				3,618
Miscellaneous						
Transfers from primary government		84,267	43,583	40,743	33,274	316,449
Transfers (to) primary government		(2,642)	(818)	(27)		(24,779)
Special and extraordinary items						(2,790)
Change in net assets	1,312	32,517	6,763	1,782	1,848	178,184
Beginning net assets		102,992	32,112	26,724	2,386	1,218,316
Ending net assets	1,312	135,509	38,875	28,506	4,234	1,396,500

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2002

Significant transactions between primary government and component units

	Revenue (Expenses)	Description
Governmental activities		
General Fund		
R.I. Depositors Economic Protection Corporation	\$ 17,500	Surplus
R.I. Higher Education Assistance Authority	(6,934)	Operating assistance
R.I. Economic Development Corporation	(13,068)	
University of Rhode Island	(85,148)	Educational assistance
Rhode Island College	(43,583)	Educational assistance
Community College of Rhode Island	(40,743)	Educational assistance
Central Falls School District	(33,266)	Educational assistance
ISTEA Fund		
R.I. Public Transit Corporation	(62,543)	Operating assistance
Capital Projects		
R.I. Economic Development Corporation	(5,521)	Construction, improvement or purchase of assets
Narragansett Bay Commission	(9,143)	Construction or purchase of assets and premium on bonds
R.I. Clean Water Finance Agency	(59,760)	Bond proceeds
University of Rhode Island	(25,444)	Construction, improvement or purchase of assets
Rhode Island College	(5,566)	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ (373,219)</u>	

Note 19. Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; employee injury; and natural disasters.

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of \$100,000 per person and \$300,000 per accident for personal injury and \$20,000 for property damage. The State also contracts with various insurance carriers and health maintenance organizations to provide health care benefits to employees.

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

There are no funds reserved for pending claims or incurred but not reported liabilities.

Note 20. Extraordinary and Special Items

In June 2002, the State sold to the Tobacco Settlement Financing Corporation (a discretely presented component unit) its future rights in the Tobacco Settlement Revenues (TSR's) under the master Settlement Agreement and the Consent Decree and Final Judgement (the MSA). The amount received by the State (\$544,238,410) is included as a special item on the government-wide statement of activities and fund financial statements.

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2002

During fiscal 2002 the State used \$295 million of cash to defease \$277 million (carrying amount) of bonds and certificates of participation. As a result of this transaction, the State incurred a loss of \$18 million which is included in special items. The cash used to defease the bonds and certificates of participation was provided by the State's sales of its rights to future tobacco settlement revenues as described above.

The R.I. Housing and Mortgage Finance Corporation periodically retires bonds prior to the redemption date. Deferred bond issuance costs, along with any premium paid on the call, in the amount of \$2,789,666 were reported as an extraordinary loss in fiscal year 2002.

Note 21. Related Party Transactions

The State sold its future rights in the Tobacco Settlement Revenues (TSR's) under the Master Settlement Agreement and the consent Decree and Final Judgment to the Tobacco Settlement Financing Corporation for \$544,238,410. The Tobacco Settlement Financing Corporation issued \$685,390,000 of its Tobacco Settlement Asset Backed Bonds in June 2002 to finance the costs of acquisition of the rights to the "state's tobacco receipts". The Corporation's bonds are payable both as to principal and interest solely out of the assets of the corporation pledged for such purpose; and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to payment of the principal on the bonds. The bonds of the corporation do not constitute an indebtedness of or a general, legal or "moral" obligation of the State or any political subdivision of the State. The Corporation is included as a discretely presented component unit.

Funds held by the University of Rhode Island Foundation for the future use of the university and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2002 amounted to \$68,728,573. Distributions of \$13,601,375 during the fiscal year ended June 30, 2002 are included in private and capital gift revenue of the university.

Funds held by the Rhode Island College Foundation for the future use of the college and its faculty and students are not reflected in the accompanying financial statements. Funds held at June 30, 2002 amounted to approximately \$7,748,605. Distributions of \$595,841 during the fiscal year ended June 30, 2002 are included in private and capital gift revenue of the university.

The R.I. Industrial-Recreational Building Authority is authorized to insure mortgages and first security agreements for companies conducting business in the State, granted by financial institutions and the R.I. Industrial Facilities Corporation.

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation providing for the lease and/or transfer from the State to the RIAC all real, personal, and tangible property; intangible property, including accounts receivable, contract rights, choices in action, licenses, permits, grants, and entitlements; and all other assets of the State used or used primarily in connection with the administration, maintenance, management, regulation, operation, improvement, development or use of the State's six airports and other air facilities. RIAC agrees to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 35 years beginning July 1, 1993, with annual rent of \$1.00.

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June 30, 2002

Note 22. Subsequent Events

Primary Government – Governmental Activities

In November 2002, the State issued \$77,140,000 of general obligation bonds. The interest rate on these bonds ranged from 4.00 to 5.25% with maturities from 2003 to 2022.

In November 2002, the voters authorized the State to issue an additional \$132,500,000 of general obligation bonds.

In December 2002, the State issued \$62,765,000 of general obligation bonds. The interest rate on these bonds ranged from 3.00 to 5.25% with maturities from 2003 to 2013.

In December 2002, the State issued \$150,000,000 of general obligation tax anticipation notes. The interest rate on these notes is 2.5% and are due on June 30, 2003.

In December 2002, the State issued \$3,890,000 of certificates of participation to finance the purchase of state vehicles.

Primary Government - Business-Type Activities

In June 2003, the R.I. Convention Center Authority issued refunding revenue bonds in the amount of \$58,285,000. As a result of this in-substance defeasance, total debt service requirements were reduced by approximately \$6,000,000.

Component Units

In September and December 2002, the R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued bonds in the amount of \$78,250,000 and \$75,335,000, respectively. In February and March 2003, the Corporation issued bonds in the amount of \$37,765,000 and \$72,165,000 respectively. In October 2002, RIHMFC also called \$71,315,000 of bonds outstanding at June 30, 2002. In June 2003, RIHMFC issued \$45,000,000 Homeownership Opportunity Bonds and Notes. In August 2003, RIHMFC issued \$33,460,000 Housing Bonds.

In October 2002 and May 2003, the R.I. Clean Water Finance Agency issued refunding revenue bonds in the amount of \$76,035,000 and \$14,870,000, respectively.

In November 2002, the R.I. Water Resources Board Corporation issued refunding revenue bonds in the amount of \$11,835,000 to refund \$7,705,000 of Series 1994 revenue bonds.

In February 2003, the R.I. Student Loan Authority issued revenue bonds in the amount of \$140,000,000. In addition, in April 2003, \$30,000,000 of refunding revenue bonds were issued to refund \$30,000,000 of the March 2000 bonds outstanding.

In May 2003, the R.I. Refunding Bond Authority issued refunding revenue bonds in the amount of \$67,625,000, which together with amounts available in debt service reserve funds were used to refund \$84,910,000 of outstanding bonds.

In July 2003, the R.I. Turnpike and Bridge Authority issued taxable refunding revenue bonds in the amount of \$35,765,000 to refund Series 1997 revenue bonds.

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June 30, 2002

Since June 30, 2002, the R.I. Health and Educational Building Corporation has issued various conduit debt obligations which are not obligations of RIHEBC or the State and are therefore not reported in the financial statements.

Component units

In early 2003, the Tobacco Settlement Financing Corporation's debt obligations, along with all other tobacco securitization debts of other jurisdictions, were placed on rating watch by the three major credit rating agencies. In addition, the ratings assigned to the corporation's debt obligations were uniformly downgraded by each of the three rating agencies. These actions by the agencies reflect the potential result of heightened litigation risks facing cigarette manufacturers, increasing competition from discounted brands, and the expectation of continuing declines in domestic cigarette consumption, as well as other factors.

**State of Rhode Island
and Providence Plantations**

**REQUIRED SUPPLEMENTARY
INFORMATION**

June 30, 2002

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	2,056,900	\$ 1,892,050	\$ 1,905,131	\$ 13,081
Licenses, fines, sales, and services	182,256	186,200	186,927	727
Departmental restricted revenue	108,992	79,649	77,038	(2,611)
Federal grants	1,531,711	1,600,500	1,289,575	(310,925)
Other revenues	55,094	54,500	56,438	1,938
Total revenues	3,934,953	3,812,899	3,515,109	(297,790)
Other financing sources:				
Operating transfers in	189,475	348,600	469,143	120,543
Operating transfers from component units		20,500	26,721	6,221
Other	90,232	82,833	83,142	309
Total revenues and other financing sources	4,214,660	4,264,832	4,094,115	(170,717)

Expenditures:

DEPARTMENT OF ADMINISTRATION

Central Management

General Revenue Total	1,835	1,904	1,984	(80)
Federal Funds Total	205	207	93	114
Total - Central Management	2,040	2,110	2,077	34

Accounts & Control

General Revenue	4,747	5,811	5,717	94
RI e-Government Fund- RI - SAIL	2,000	2,065	2,012	53
Total - Accounts & Control	6,747	7,876	7,730	147

Budgeting

General Revenue Total	2,107	2,101	2,049	52
Total - Budgeting	2,107	2,101	2,049	52

Municipal Affairs

General Revenue Total	1,236	1,136	1,175	(39)
Federal Funds Total	7,500	8,618	4,918	3,700
Total - Municipal Affairs	8,737	9,754	6,092	3,661

Purchasing

General Revenue Total	2,101	2,165	1,978	187
Total - Purchasing	2,101	2,165	1,978	187

Auditing

General Revenue Total	1,510	1,542	1,513	29
Total - Auditing	1,510	1,542	1,513	29

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Human Resources				
General Revenue Total	6,481	6,791	6,836	(45)
Federal Funds Total		14	14	
Total - Human Resources	6,481	6,805	6,850	(45)
Personnel Appeal Board				
General Revenue Total	131	112	106	6
Total - Personnel Appeal Board	131	112	106	6
Taxation				
Motor Fuel Tax Evasion Program	90	91	57	34
Temporary Disability Insurance	642	584	404	180
General Revenue	14,814	15,948	16,615	(667)
Federal Funds Total	1,306	1,189	328	861
Restricted Receipts Total	335	490	1,995	(1,505)
Total - Taxation	17,188	18,301	19,399	(1,097)
Registry of Motor Vehicles				
Auto Emission CMAQ	11		55	(55)
Registration Denial Program		110		110
General Revenue	13,794	14,152	14,199	(47)
RI e-Government Fund - OLIS Support - RMV System	350	200	200	
RI e-Government Fund - Digital License System	150	300		300
Federal Funds Total		394	146	248
Restricted Receipts Total	16	16	14	2
Total - Registry of Motor Vehicles	14,321	15,172	14,615	558
Child Support				
General Revenue Total	3,193	3,173	2,348	825
Federal Funds Total	7,268	7,093	6,897	196
Total - Child Support	10,461	10,266	9,244	1,021
Central Services				
Lighting Conservation	661	661	143	518
General Revenue	11,912	11,708	12,192	(484)
Energy Office Grants	381	1,284	766	518
Federal Funds Total	18,544	18,250	13,925	4,325
Restricted Receipts Total	1,050	1,317	443	874
Total - Central Services	32,548	33,221	27,469	5,751
Office of Library & Information Services				
Federal Highway - PL Systems Planning	851	921	577	344
Federal Highway - T2 Systems Planning	118	128	147	(19)
Air Quality Modeling	20	20	6	14
General Revenue Total	2,606	2,566	2,429	137

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Federal Funds Total	1,357	1,219	1,031	188
Restricted Receipts Total	11	10	5	5
Total - Office of Library & Information Services	4,964	4,864	4,195	669
General				
RICAP - State House Renovations (Phase 1)		100	45	55
RICAP - A-Building Stabilization - Pastore Center	100			
RICAP - State House Skylights and Roof Repairs	1,733	3,246	2,662	584
RICAP - State House Terrace/South Stairs	2,903	2,163	1,860	303
RICAP - Chapin Health Laboratory	300	116	147	(31)
RICAP - Cranston Street Armory	1,000	795	942	(147)
RICAP - Cannon Building	150	288	214	74
RICAP House & Senate Chambers Renovations			9	(9)
RICAP - Second State House Elevator		12		12
RICAP - Ladd Center - Infrastructure		974	600	374
RICAP - Old State House	35	50		50
RICAP - State Office Building	200	110	13	97
RICAP - Veterans Office Building		73	24	49
RICAP - State Information Operations Center	200			
RICAP - Old Colony House	200	200	83	117
RICAP - Court Buildings - HVAC	362			
RICAP - Asset Inventory	50	300	133	167
RICAP - Washington County Government Center	395	77	78	(1)
RICAP - State House Renovations - Phase II	593	76	30	46
RICAP - Board of Elections Building	50	25	2	23
RICAP - Environmental Compliance	900	750	315	435
RICAP - Fox Point Hurricane Barrier	50	50	50	
General Revenue	11,419	10,259	10,147	112
Contingency Fund		1,771	350	1,421
Economic Development Corporation	7,827	7,827	7,822	5
Centers of Excellence	3,000	3,000	3,000	
Housing Resources Commission	8,652	3,651	3,586	65
Race and Police Community Relations Commission	300	300	295	5
Motor Vehicle Excise Tax Payment	97,203	99,565	99,467	98
Property Valuation	1,073	1,120	1,015	105
General Revenue Sharing Program	43,621	43,621	43,621	
Payment in Lieu of Tax Exempt Properties	18,152	18,152	18,134	18
Distressed Communities Relief Program	7,400	7,500	7,638	(138)
Resource Sharing and State Library Aid	6,319	6,319	6,287	32
Library Construction Aid	2,281	2,046	2,047	(1)
Federal Funds	700	700	484	216

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Restricted Receipts Total	566	1,266	932	334
Total - General	217,733	216,502	212,033	4,470
Debt Service Payments				
DEM - Narragansett Bay Commission	5,067	5,045	4,917	128
DEM - Clean Water Finance Agency	3,834	1,759	1,759	
DEM - Wasterwater Treatment	6,099	9,830	9,789	41
DEM Debt Service - Recreation		5,339	5,763	(424)
RIPTA Debt Service	772	783	783	
MHRH Com Services		6,777	6,597	180
MHRH Comm. Mental Health		2,749	2,676	73
Transportation Debt Service	42,085	42,075	41,088	987
RIRBA - DLT Temporary Disability Insurance	60	60	38	22
COPS - DLT Building - Other	360	384	340	44
COPS - Center General - Furniture - TDI	2	2	21	(19)
COPS - Pastore Center Telecomm - TDI	20	20	19	1
Debt - URI Education and General	963	1,088	1,089	(1)
Debt - URI Housing Loan Funds	1,846	1,889	1,752	137
Debt - URI Dining Services	265	267	267	
Debt - URI Health Services	125	126	126	
Debt - W. Alton Jones Services	111	112	113	(1)
Debt - URI Memorial Union	98	98	98	
Debt - URI Sponsored Research (Indirect Cost)	101	101	101	
Debt - RIC Education and General	297	296	296	
Debt - RIC Housing	568	561	561	
Debt - RIC Student Center and Dining	178	178	178	
Debt - RIC Student Union	255	197	197	
Debt - CCRI Bookstore	177	177	177	
Debt Service Special Accounts			9,112	(9,112)
Debt Service Payments	115,959	93,330	96,041	(2,711)
Federal Funds	1,632	1,561	1,418	143
Restricted Receipts Total	5,962	5,892	2,906	2,986
Total - Debt Service Payments	186,837	180,699	188,222	(7,526)
Sheriffs				
General Revenue Total	12,246	12,094	11,844	250
Total - Sheriffs	12,246	12,094	11,844	250
Total - DEPARTMENT OF ADMINISTRATION	526,150	523,584	515,416	8,167

DEPARTMENT OF BUSINESS REGULATION

Central Management

General Revenue Total	1,434	1,505	1,518	(13)
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State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<i>Total - Central Management</i>	1,434	1,505	1,518	(13)
<i>Banking Regulation</i>				
General Revenue Total	1,470	1,355	1,339	16
<i>Total - Banking Regulation</i>	1,470	1,355	1,339	16
<i>Securities Regulation</i>				
General Revenue Total	665	645	643	2
<i>Total - Securities Regulation</i>	665	645	643	2
<i>Commercial Licensing and Regulation</i>				
General Revenue Total	916	1,015	1,002	13
Restricted Receipts Total	100	100	10	90
<i>Total - Commercial Licensing and Regulation</i>	1,016	1,115	1,012	103
<i>Racing and Athletics</i>				
General Revenue Total	685	668	665	3
<i>Total - Racing and Athletics</i>	685	668	665	3
<i>Insurance Regulation</i>				
General Revenue	3,503	3,429	3,302	127
Gramm, Leach, Bliley Act		489		489
Restricted Receipts Total	357	480	231	249
<i>Total - Insurance Regulation</i>	3,861	4,398	3,533	865
<i>Board of Accountancy</i>				
General Revenue Total	189	167	139	28
<i>Total - Board of Accountancy</i>	189	167	139	28
 Total - DEPARTMENT OF BUSINESS REGULATION	 9,319	 9,854	 8,850	 1,004
DEPARTMENT OF LABOR AND TRAINING				
<i>Central Management</i>				
General Revenue Total	280	386	320	66
Director of Workers' Compensation	471	775	680	95
<i>Total - Central Management</i>	751	1,161	999	161
<i>Workforce Development Services</i>				
Federal Funds Total	20,406	24,444	18,128	6,316
ES - Reemployment Program	1,127	1,018	633	385
Human Resource Investment Council	9,113	9,183	9,411	(228)
Reed Act-Rapid Job Entry		289		289
Job Development Fund DLT Admin	267	40	77	(37)
HRIC - Supportive Work/Rapid Job Entry		1,711	1,873	(162)
<i>Total - Workforce Development Services</i>	30,913	36,685	30,122	6,563
<i>Workforce Regulation and Safety</i>				

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
General Revenue Total	3,688	3,801	3,737	64
Total - Workforce Regulation and Safety	3,688	3,801	3,737	64
Income Support				
General Revenue Total	2,654	2,701	2,880	(179)
Federal Funds Total	18,227	18,535	15,464	3,071
Restricted Receipt Total	1,990	705	484	221
Total - Income Support	22,871	21,941	18,828	3,113
Injured Workers Services				
Restricted Receipts Total	9,307	8,962	8,918	44
Total - Injured Workers Services	9,307	8,962	8,918	44
Labor Relations Board				
General Revenue Total	339	357	354	3
Total - Labor Relations Board	339	357	354	3
Total - DEPARTMENT OF LABOR AND TRAINING	67,869	72,907	62,959	9,948
GENERAL ASSEMBLY				
General Assembly				
General Revenue Total	24,887	28,389	26,037	2,352
Restricted Receipts Total	757	759	892	(133)
Total - General Assembly	25,644	29,148	26,929	2,219
Total - GENERAL ASSEMBLY	25,644	29,148	26,929	2,219
OFFICE OF THE LIEUTENANT GOVERNOR				
Lt. Governor's Office - General				
General Revenue Total	765	760	757	3
Total - Lt. Governor's Office - General	765	760	757	3
Total - OFFICE OF THE LIEUTENANT GOVERNOR	765	760	757	3
DEPARTMENT OF STATE				
Administration				
General Revenue Total	1,166	1,252	1,139	113
Total - Administration	1,166	1,252	1,139	113
Corporations				
General Revenue	1,427	1,434	1,475	(41)
RI e-Gov Fund - UCC Automated System	250	250	111	139
Total - Corporations	1,677	1,684	1,586	98
State Archives				
General Revenue Total	281	280	307	(27)
Federal Funds Total	19	24	17	7

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Restricted Receipts Total	193	190	261	(71)
Total - State Archives	493	493	585	(91)
Elections				
General Revenue Total	468	466	465	1
Total - Elections	468	466	465	1
State Library				
General Revenue Total	704	705	701	4
Total - State Library	704	705	701	4
Office of Public Information				
General Revenue Total	481	481	520	(39)
Total - Office of Public Information	481	481	520	(39)
Total - DEPARTMENT OF STATE	4,988	5,083	4,997	86
TREASURY DEPARTMENT				
Treasury				
General Revenue Total	2,584	2,643	2,627	16
Federal Funds Total	265	214	185	29
Restricted Receipts Total	16	11	11	
Total - Treasury	2,865	2,868	2,823	45
State Retirement System				
Administrative Expenses - State Retirement System	11,148	11,220	9,427	1,793
Retirement-Treasury Investment Operations	542	567	516	51
Total - State Retirement System	11,690	11,788	9,943	1,844
Unclaimed Property				
Restricted Receipts Total	9,383	9,080	8,256	824
Total - Unclaimed Property	9,383	9,080	8,256	824
RI Refunding Bond Authority				
General Revenue Total	68	82	55	27
Total - RI Refunding Bond Authority	68	82	55	27
Crime Victim Compensation Program				
General Revenue Total	2,420	2,399	2,398	1
Federal Funds Total	1,497	1,500	1,813	(313)
Restricted Receipts Total	1,728	1,740	1,619	121
Total - Crime Victim Compensation Program	5,645	5,639	5,830	(191)
Total - TREASURY DEPARTMENT	29,651	29,456	26,907	2,549
BOARD FOR DESIGN PROFESSIONALS				
Boards For Professional Design				
General Revenue Total	350	363	348	15
Total - Boards For Professional Design	350	363	348	15

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Total - BOARD FOR DESIGN PROFESSIONALS	350	363	348	15
BOARD OF ELECTIONS				
<i>Board Of Elections</i>				
General Revenues	2,120	2,151	2,190	(39)
RI e-Gov Fund - Electronic Campaign Finance System	330	330	264	66
Total - Board Of Elections	2,450	2,481	2,454	27
Total - BOARD OF ELECTIONS	2,450	2,481	2,454	27
RHODE ISLAND ETHICS COMMISSION				
<i>RI Ethics Commission</i>				
General Revenue Total	847	905	874	31
Total - RI Ethics Commission	847	905	874	31
Total - RHODE ISLAND ETHICS COMMISSION	847	905	874	31
EXECUTIVE DEPARTMENT				
<i>Office Of Governor</i>				
General Revenue Total	5,682	5,611	4,526	1,085
Total - Office Of Governor	5,682	5,611	4,526	1,085
Total - EXECUTIVE DEPARTMENT	5,682	5,611	4,526	1,085
PUBLIC UTILITIES COMMISSION				
<i>Public Utilities Commission</i>				
General Revenue Total	731	711	703	8
Federal Funds Total	62	62	37	25
Restricted Receipts Total	4,663	4,684	3,576	1,108
Total - Public Utilities Commission	5,456	5,456	4,315	1,141
Total - PUBLIC UTILITIES COMMISSION	5,456	5,456	4,315	1,141
RHODE ISLAND COMMISSION ON WOMEN				
<i>Rhode Island Commission on Women</i>				
General Revenue Total	139	140	138	2
Total - Rhode Island Commission on Women	139	140	138	2
Total - RHODE ISLAND COMMISSION ON WOMEN	139	140	138	2
DEPARTMENT OF CHILDREN, YOUTH, AND FAMILIES				
<i>Central Management</i>				
General Revenue Total	7,829	7,814	7,849	(35)
Federal Funds Total	5,117	4,807	4,048	759
Total - Central Management	12,946	12,621	11,897	724

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<i>Children's Behavioral Health Services</i>				
RICAP - Grodin Center	80		3	(3)
RICAP - Spurwink/RI	199	183	69	114
General Revenue Total	21,620	22,130	20,863	1,267
Federal Funds Total	19,732	20,545	19,691	854
Total - Children's Behavioral Health Services	41,631	42,858	40,626	2,232
<i>Juvenile Correctional Services</i>				
RICAP - RI Training School Bathroom Renovation	100	100	131	(31)
General Revenue Total	24,424	24,660	24,779	(119)
Federal Funds Total	2,856	3,651	3,290	361
Restricted Receipts Total	8	508		508
Total - Juvenile Correctional Services	27,387	28,920	28,200	719
<i>Child Welfare</i>				
Children's Trust Fund	56	56	27	29
General Revenues	78,957	84,685	83,965	720
Federal Funds Total	55,628	60,185	61,149	(964)
Restricted Receipts Total	1,387	1,022	1,253	(231)
Total - Child Welfare	136,027	145,947	146,393	(446)
<i>Higher Education Incentive Grants</i>				
General Revenue Total	150	204	195	9
Total - Higher Education Incentive Grants	150	204	195	9
Total - DEPARTMENT OF CHILDREN, YOUTH, AND FAMILIES	218,142	230,549	227,311	3,238
DEPARTMENT OF ELDERLY AFFAIRS				
<i>Elderly Affairs</i>				
Intermodal Surface Transportation Fund	4,700	4,495	4,495	
General Revenues	13,478	13,495	13,227	268
Safety and Care of the Elderly	1	1	1	
RIPAE	10,281	11,913	12,135	(222)
Federal Funds Total	8,660	9,527	8,839	688
Total - Elderly Affairs	37,119	39,430	38,697	734
Total - DEPARTMENT OF ELDERLY AFFAIRS	37,119	39,430	38,697	734
DEPARTMENT OF HEALTH				
<i>Central Management</i>				
Trauma Registry	228	170	164	6
General Revenues	2,609	2,572	2,682	(110)
RI e-Gov Fund - Automated Vital Records System	300	300	304	(4)
Federal Funds Total	3,062	2,296	2,025	271

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Restricted Receipts Total	1,729	1,753	2,122	(369)
Total - Central Management	7,928	7,091	7,297	(206)
State Medical Examiner				
General Revenue Total	1,679	1,657	1,518	139
Total - State Medical Examiner	1,679	1,657	1,518	139
Family Health				
General Revenues	8,465	8,997	9,089	(92)
Poison Control Center	250	250	256	(6)
Federal Funds Total	27,386	29,749	29,372	377
Restricted Receipts Total	3,460	3,868	3,083	785
Total - Family Health	39,561	42,863	41,801	1,064
Health Services Regulation				
General Revenues	4,376	4,416	4,475	(59)
Hospital Care Consultant Report	292	291	192	99
Federal Funds Total	1,963	2,153	2,353	(200)
Restricted Receipts Total	465	494	454	40
Total - Health Services Regulation	7,096	7,355	7,473	(120)
Environmental Health				
General Revenue Total	4,157	4,038	4,155	(117)
Federal Funds Total	2,217	2,661	3,042	(381)
Restricted Receipts Total	670	1,068	1,101	(33)
Total - Environmental Health	7,045	7,768	8,299	(531)
Health Laboratories				
General Revenue Total	5,638	5,991	5,854	137
Federal Funds Total	795	704	897	(193)
Total - Health Laboratories	6,433	6,695	6,750	(56)
Disease Prevention and Control				
General Revenue	5,220	5,300	5,106	194
Smoking Cessation	1,000	300	397	(97)
Federal Funds Total	11,657	11,822	11,565	257
Restricted Receipts Total	80	876	41	835
Child Safety Program		20	42	(22)
Walkable Communities Initiative		80		80
Total - Disease Prevention and Control	17,957	18,398	17,151	1,247
Total - DEPARTMENT OF HEALTH	87,698	91,828	90,290	1,537
DEPARTMENT OF HUMAN SERVICES				
Central Management				
General Revenue Total	7,089	6,914	5,998	916
Federal Funds Total	3,673	3,883	3,731	152

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Restricted Receipts Total	1,787	1,975	2,217	(242)
Total - Central Management	12,550	12,772	11,946	826
Individual and Family Support				
RICAP Veterans' Home Roof	60			
RICAP Forand Building Exterior Doors and Windows	135			
RICAP Forand Building Soffitts Replacement	85			
RICAP Forand Building Exterior Window Panels	349	5	1	4
General Revenue Total	20,700	20,309	20,051	258
Federal Funds Total	50,995	51,389	45,978	5,411
Restricted Receipts Total	74	74	46	28
Total - Individual and Family Support	72,398	71,776	66,076	5,701
Veterans' Affairs				
General Revenue Total	13,406	14,148	14,173	(25)
Federal Funds Total	5,605	6,672	6,365	307
Restricted Receipts Total	1,086	2,087	1,655	432
Total - Veterans' Affairs	20,097	22,906	22,192	714
Health Care Quality,Financing & Purchase				
General Revenue Total	22,250	22,459	21,905	554
Federal Funds Total	30,378	31,901	31,279	622
Restricted Receipts Total	330	495	285	210
Total - Health Care Quality,Financing & Purchase	52,958	54,855	53,469	1,386
Medical Benefits				
General Revenues - Managed Care	114,429	118,200	117,800	400
General Revenues - Hospitals	87,084	95,884	96,497	(613)
General Revenues - Other	86,732	86,473	87,958	(1,485)
General Revenues - Special Education	9,494	13,943	14,807	(864)
General Revenues - Nursing Facilities	121,332	123,200	120,888	2,312
Federal Funds - Managed Care	132,790	137,300	139,540	(2,240)
Federal Funds - Hospitals	95,167	104,116	104,149	(33)
Federal Funds - Nursing Facilities	135,743	137,800	134,257	3,543
Federal Funds - Other	98,136	96,727	95,470	1,257
Federal Funds - Special Education	11,006	15,557	16,479	(922)
Restricted Receipts Total	15	15	7	8
Total - Medical Benefits	891,928	929,215	927,852	1,363
Supplemental Security Income Program				
General Revenue Total	28,267	28,175	27,950	225
Total - Supplemental Security Income Program	28,267	28,175	27,950	225
Family Independence Program				

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
TANF/Families Independence Program	18,000	16,167	16,167	
Child Care	53,609	52,656	52,656	
Federal Funds Total	82,403	87,907	88,737	(830)
Total - Family Independence Program	154,012	156,730	157,560	(830)
State Funded Programs				
General Public Assistance	2,074	2,562	2,745	(183)
Food Stamp Replacement for Legal Immigrants	1,619	1,795	1,787	8
Weatherization One-Time Payment	1,579	1,640	1,671	(31)
Citizen Participation Program	100	100	100	
Federal Funds Total	59,026	64,356	63,628	728
Total - State Funded Programs	64,399	70,454	69,930	522
Total - DEPARTMENT OF HUMAN SERVICES	1,296,609	1,346,883	1,336,975	9,907
DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS				
Central Management				
General Revenue Total	1,703	1,973	1,686	287
Total - Central Management	1,703	1,973	1,686	287
Hospital & Community System Support				
RICAP - Utilities Upgrade	400	510	440	70
RICAP - Medical Center Rehabilitation	665	250	159	91
RICAP - Utility Systems Water Tanks and Pipes	350	111	221	(110)
RICAP - Central Power Plant Rehabilitation		360	551	(191)
RICAP - Environmental Mandates	550			
General Revenue Total	19,946	22,640	23,723	(1,083)
Total - Hospital & Community System Support	21,911	23,871	25,094	(1,223)
Service for the Developmentally Disabled				
General Revenue	98,549	96,852	97,066	(214)
Pirovano Trust		261	113	148
Federal Funds Total	111,725	110,317	102,593	7,724
Total - Service for the Developmentally Disabled	210,274	207,430	199,772	7,658
Integrated Mental Health Services				
General Revenue Total	30,348	30,709	32,113	(1,404)
Federal Funds Total	28,172	28,574	29,541	(967)
Total - Integrated Mental Health Services	58,520	59,283	61,653	(2,371)
Hospital & Community Rehabilitation Svcs				
RICAP - Zambarano Buildings and Utilities	405	100	3	97
General Revenue Total	50,524	51,682	51,634	48
Federal Funds Total	52,382	53,334	55,626	(2,292)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
<i>Total - Hospital & Community Rehabilitation Svcs</i>	103,311	105,116	107,263	(2,147)
Substance Abuse				
RICAP - Asset Protection	100	113	113	
General Revenues	14,830	15,294	14,789	505
Providence Community Action	213			
Federal Funds Total	9,943	10,515	9,521	994
Restricted Receipts Total	55	65	62	3
Total - Substance Abuse	25,141	25,987	24,486	1,502
Total - DEPARTMENT OF MENTAL HEALTH, RETARDATION AND HOSPITALS	420,859	423,661	419,954	3,706
OFFICE OF THE CHILD ADVOCATE				
<i>Office of the Child Advocate</i>				
General Revenue Total	523	522	492	30
Federal Funds Total	343	359	344	15
Total - Office of the Child Advocate	866	882	835	45
Total - OFFICE OF THE CHILD ADVOCATE	866	882	835	45
RHODE ISLAND COMMISSION ON THE DEAF & HARD OF HEARING				
<i>Commission On Deaf and Hard Of Hearing</i>				
General Revenue Total	258	196	165	31
Total - Commission On Deaf and Hard Of Hearing	258	196	165	31
Total - RHODE ISLAND COMMISSION ON THE DEAF & HARD OF HEARING	258	196	165	31
STATE COUNCIL ON DEVELOPMENTAL DISABILITIES				
<i>RI Developmental Disabilities Council</i>				
Federal Funds Total	409	420	406	14
Total - RI Developmental Disabilities Council	409	420	406	14
Total - STATE COUNCIL ON DEVELOPMENTAL DISABILITIES	409	420	406	14
GOVERNOR'S COMMISSION ON DISABILITIES				
<i>Governor's Commission on Disabilities</i>				
General Revenue Total	305	304	304	
Federal Funds Total	28	25	10	15
Restricted Receipts Total	1	38	15	23
Total - Governor's Commission on Disabilities	335	367	329	38

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Total - GOVERNOR'S COMMISSION ON DISABILITIES	335	367	329	38
RHODE ISLAND COMMISSION FOR HUMAN RIGHTS				
<i>Commission For Human Rights</i>				
General Revenue Total	783	735	733	2
Federal Funds Total	426	416	492	(76)
Total - Commission For Human Rights	1,209	1,151	1,225	(74)
Total - RHODE ISLAND COMMISSION FOR HUMAN RIGHTS	1,209	1,151	1,225	(74)
OFFICE OF THE MENTAL HEALTH ADVOCATE				
<i>Office of the Mental Health Advocate</i>				
General Revenue Total	295	283	291	(8)
Total - Office of the Mental Health Advocate	295	283	291	(8)
Total - OFFICE OF THE MENTAL HEALTH ADVOCATE	295	283	291	(8)
DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION				
<i>State Aid</i>				
State Support Local School Operations	575,846	576,381	576,235	146
Federal Funds		2,536	647	1,889
Total - State Aid	575,846	578,917	576,882	2,035
<i>School Housing Aid</i>				
General Revenue Total	30,776	33,222	33,222	
Total - School Housing Aid	30,776	33,222	33,222	
<i>Teacher's Retirement</i>				
General Revenue Total	37,244	31,224	31,264	(40)
Total - Teacher's Retirement	37,244	31,224	31,264	(40)
<i>RI School for the Deaf</i>				
RICAP - School for the Deaf - Physical Education Facility	268	33	11	22
General Revenue Total	5,681	5,382	5,801	(419)
Federal Funds Total	947	1,246	1,083	163
Restricted Receipts Total		1	1	1
Total - RI School for the Deaf	6,897	6,662	6,895	(233)
<i>Central Falls School District</i>				
General Revenue Total	33,266	33,266	33,266	
Total - Central Falls School District	33,266	33,266	33,266	
<i>Davies Career and Technical School</i>				
General Revenue Total	10,612	10,328	9,842	486

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
RICAP - Davies Roof Repair	450			
Federal Funds Total	797	1,030	1,067	(37)
Restricted Receipts Total	25	195	21	174
Total - Davies Career and Technical School	11,884	11,553	10,931	623
Metropolitan Career & Technical School				
General Revenue Total	2,155	2,155	2,155	
Total - Metropolitan Career & Technical School	2,155	2,155	2,155	
Program Operations				
RICAP - Woonsocket Vocational HVAC		10	3	7
RICAP - East Providence Vocational HVAC	141	10	5	5
RICAP - Hanley - HVAC	125	217	152	65
RICAP - State-Owned Schools - Fire Alarm Systems	100	78	34	44
RICAP - Hazardous Materials Storage/Dust	218	206	206	
General Revenue Total	15,388	15,163	15,518	(355)
Federal Funds Total	111,817	128,942	104,951	23,991
Restricted Receipts Total	664	1,046	853	193
Total - Program Operations	128,454	145,671	121,722	23,950
Total - DEPARTMENT OF ELEMENTARY AND SECONDARY EDUCATION	826,521	842,670	816,337	26,335
BOARD OF GOVERNORS FOR HIGHER EDUCATION				
Board of Governors				
General Revenue Total	174,894	174,474	174,473	1
Federal Fund Total	2,040	2,321	2,420	(99)
Total - Board of Governors	176,934	176,794	176,893	(98)
Total - BOARD OF GOVERNORS FOR HIGHER EDUCATION	176,934	176,794	176,893	(98)
RHODE ISLAND STATE COUNCIL ON THE ARTS				
RI State Council On The Arts				
Operating Support	359	364	368	(4)
Grants	1,925	1,918	1,270	648
Federal Funds Total	554	597	520	77
Restricted Receipts Total	250	255	40	215
Total - RI State Council On The Arts	3,087	3,134	2,198	936
Total - RHODE ISLAND STATE COUNCIL ON THE ARTS	3,087	3,134	2,198	936
RHODE ISLAND ATOMIC ENERGY COMMISSION				
Atomic Energy Commission				
URI Sponsored Research	130	130	131	(1)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
RICAP - Paint Interior Reactor Building Walls	50			
RICAP - Roof Replacement - North Bunker	21	21	19	2
General Revenue Total	649	645	631	14
Federal Funds Total	753	703	9	694
Total - Atomic Energy Commission	1,604	1,499	789	709
Total - RHODE ISLAND ATOMIC ENERGY COMMISSION	1,604	1,499	789	709
RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY				
<i>Higher Education Assistance Authority</i>				
Needs Based Grants and Work Opportunities	6,397	5,897	5,949	(52)
Authority Operations and Other Grants	1,039	1,037	986	51
Total - Higher Education Assistance Authority	7,436	6,934	6,934	(1)
Total - RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY	7,436	6,934	6,934	(1)
HISTORICAL PRESERVATION AND HERITAGE COMMISSION				
<i>Historical Preservation Commission</i>				
General Revenue Total	751	784	777	7
Federal Funds Total	541	535	559	(24)
Restricted Receipts Total	332	328	434	(106)
Total - Historical Preservation Commission	1,624	1,646	1,771	(123)
Total - HISTORICAL PRESERVATION AND HERITAGE COMMISSION	1,624	1,646	1,771	(123)
RHODE ISLAND PUBLIC TELECOMMUNICATIONS AUTHORITY				
<i>R.I Public Telecommunications Authority</i>				
General Revenue Total	1,358	1,267	1,158	109
Total - R.I Public Telecommunications Authority	1,358	1,267	1,158	109
Total - RHODE ISLAND PUBLIC TELECOMMUNICATIONS AUTHORITY	1,358	1,267	1,158	109
DEPARTMENT OF ATTORNEY GENERAL				
<i>Criminal</i>				
General Revenue Total	9,255	9,503	9,277	226
Federal Funds Total	1,191	1,267	1,093	174
Restricted Receipts Total	179	163	156	7
Total - Criminal	10,625	10,932	10,526	407
<i>Civil</i>				
General Revenue Total	3,484	3,358	3,289	69

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Federal Funds Total	75	68		68
Restricted Receipts Total	409	417	381	36
Total - Civil	3,968	3,843	3,671	173
Bureau of Criminal Identification				
General Revenue Total	606	623	601	22
Federal Funds Total		225	81	144
Total - Bureau of Criminal Identification	606	848	682	166
General				
General Revenue Total	1,470	1,523	1,506	17
Total - General	1,470	1,523	1,506	17
Total - DEPARTMENT OF ATTORNEY GENERAL	16,669	17,146	16,385	763
DEPARTMENT OF CORRECTIONS				
Central Management				
General Revenue Total	9,510	9,236	8,645	591
Federal Funds Total		188	188	
Total - Central Management	9,510	9,424	8,833	591
Parole Board				
General Revenue Total	853	890	861	29
Federal Funds Total	8			
Total - Parole Board	861	890	861	29
Institutional Corrections				
RICAP - Fire Code Safety Improvements	1,000	1,374	1,025	349
RICAP - Security Camera Installation	417	773	860	(87)
RICAP - HVAC Renovations - Maximum		19		19
RICAP - Window Replacement - Women's	350	666	574	92
RICAP - Dix Expansion - Phase II		35	16	19
RICAP - Reintegration Center State Match		171	18	153
RICAP - Dix Expansion - State Match		43	1	42
RICAP - General Renovations - Maximum	450	327	74	253
RICAP - Roof/Masonry Renovations - Women's	105	130	102	28
RICAP - High Security Fire Alarm HVAC	172	79	48	31
RICAP - Aquidneck & Prudence Cellblock Roofs	220	741	680	61
RICAP - Perimeter/Security Upgrades	1,765	687	555	132
General Revenue Total	110,827	109,521	109,015	506
Federal Funds Total	6,337	7,349	4,390	2,959
Restricted Receipts Total	3,877	5,367	5,368	(1)
Total - Institutional Corrections	125,521	127,284	122,728	4,556
Community Corrections				
General Revenue Total	10,298	10,265	9,648	617

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Federal Funds Total	339	302	272	30
Total - Community Corrections	10,637	10,567	9,920	647
Total - DEPARTMENT OF CORRECTIONS	146,528	148,164	142,342	5,823
JUDICIAL DEPARTMENT				
Supreme Court				
RICAP - Garrahy Judicial Complex Renovation	1,976	3,160	3,156	4
RICAP - Garrahy Complex Roof Repair		323	322	1
RICAP - Licht Exterior/Interior Refurbishment		130	129	1
RICAP - Fogarty Judicial Annex	95	35	35	
General Revenue	17,666	18,957	19,258	(301)
Defense of Indigents	1,550	1,550	1,745	(195)
Federal Funds Total	150	180	164	16
Restricted Receipts Total	763	891	769	122
Total - Supreme Court	22,199	25,225	25,578	(352)
Superior Court				
Federal Funds Total		120	1	119
General Revenue Total	14,673	15,080	14,786	294
Total - Superior Court	14,673	15,200	14,787	413
Family Court				
General Revenue Total	10,818	10,883	10,773	110
Federal Funds Total	1,679	2,400	2,274	126
Restricted Receipts Total	234	248	132	116
Total - Family Court	12,730	13,531	13,179	352
District Court				
General Revenue Total	6,866	6,796	6,761	35
Federal Funds Total	250	172	111	61
Restricted Receipts Total	70	139	75	64
Total - District Court	7,186	7,107	6,947	160
Traffic Tribunal				
General Revenue Total	5,495	5,476	5,453	23
Total - Traffic Tribunal	5,495	5,476	5,453	23
Worker's Compensation Court				
Restricted Receipts Total	4,793	5,148	4,876	272
Total - Worker's Compensation Court	4,793	5,148	4,876	272
Justice Link				
General Revenue Total	1,582	2,478	1,912	566
Total - Justice Link	1,582	2,478	1,912	566
Total - JUDICIAL DEPARTMENT	68,659	74,165	72,733	1,434

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
MILITIA OF THE STATE				
<i>National Guard</i>				
Rails to Trails	292		1	(1)
RICAP - Bristol Armory Rehabilitation	200	190	190	
RICAP - Benefit St. Arsenal Rehabilitation	71	22	22	
RICAP - Schofield Armory Rehabilitation	110	20		20
RICAP - US Property and Finance Office - HVAC	50	5	5	
RICAP - Warren Armory	100	154	130	24
RICAP - Vehicle Exhaust Vent System	50	50	49	1
General Revenue	1,734	2,054	2,000	54
RI e-Government Fund - Distributed Tech. Training	100	50	16	34
Federal Funds Total	6,299	7,054	5,548	1,506
Total - National Guard	9,005	9,599	7,962	1,638
<i>Emergency Management</i>				
General Revenue Total	399	475	444	31
Federal Funds Total	2,945	2,896	2,453	443
Restricted Receipts Total	111	111	112	(1)
Total - Emergency Management	3,455	3,481	3,010	473
Total - MILITIA OF THE STATE	12,461	13,081	10,971	2,111
E-911 UNIFORM EMERGENCY TELEPHONE SYSTEM DIVISION				
<i>E-911</i>				
General Revenue	3,136	3,318	3,393	(75)
RI e-Government Fund - GIS Database Development	500	500	500	
Total - E-911	3,636	3,818	3,893	(75)
Total - E-911 UNIFORM EMERGENCY TELEPHONE SYSTEM DIVISION	3,636	3,818	3,893	(75)
FIRE SAFETY CODE BOARD OF APPEAL & REVIEW				
<i>Fire Code Commission</i>				
General Revenue Total	210	207	211	(4)
Total - Fire Code Commission	210	207	211	(4)
Total - FIRE SAFETY CODE BOARD OF APPEAL & REVIEW	210	207	211	(4)
DIVISION OF FIRE SAFETY				
<i>Fire Safety & Training Academy</i>				
General Revenue Total	1,309	1,330	1,471	(141)
Federal Funds Total	55	261	135	126
Total - Fire Safety & Training Academy	1,364	1,591	1,607	(15)
Total - DIVISION OF FIRE SAFETY	1,364	1,591	1,607	(15)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
COMMISSION ON JUDICIAL TENURE & DISCIPLINE				
<i>Commission on Judicial Tenure and Discipline</i>				
General Revenue Total	100	109	102	7
Total - Commission on Judicial Tenure and Discipline	100	109	102	7
Total - COMMISSION ON JUDICIAL TENURE & DISCIPLINE	100	109	102	7
RHODE ISLAND JUSTICE COMMISSION				
<i>Rhode Island Justice Commission</i>				
General Revenue Total	178	177	177	
Federal Funds Total	4,790	5,264	4,262	1,002
Restricted Receipts Total		90	49	41
Total - Rhode Island Justice Commission	4,968	5,532	4,488	1,043
Total - RHODE ISLAND JUSTICE COMMISSION	4,968	5,532	4,488	1,043
MUNICIPAL POLICE TRAINING SCHOOL				
<i>Municipal Police Academy</i>				
General Revenue Total	322	371	360	11
Federal Funds Total	50	66	59	7
Total - Municipal Police Academy	372	437	419	18
Total - MUNICIPAL POLICE TRAINING SCHOOL	372	437	419	18
RHODE ISLAND STATE POLICE				
<i>State Police</i>				
RICAP - Barracks and Training Headquarters	100			
RICAP - Headquarters Repair/Renovation	325	435	435	
RICAP - Parking Area Improvements	71			
Traffic Enforcement - Municipal Training	121	226	55	171
Lottery Commission Assistance	105	106	113	(7)
Road Construction Reimbursement	2,320	2,290	2,035	255
General Revenue Total	37,111	37,958	38,000	(42)
Federal Funds Total	700	3,102	1,041	2,061
Restricted Receipts Total	218	282	239	43
Total - State Police	41,071	44,400	41,918	2,481
Total - RHODE ISLAND STATE POLICE	41,071	44,400	41,918	2,481
OFFICE OF PUBLIC DEFENDER				
<i>Public Defenders Office</i>				
General Revenue Total	5,585	5,568	5,544	24

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Federal Funds Total	313	503	403	100
Total - Public Defenders Office	5,899	6,070	5,947	124
Total - OFFICE OF PUBLIC DEFENDER	5,899	6,070	5,947	124
DEPARTMENT OF ENVIRONMENTAL MANAGEMENT				
<i>Policy and Administration</i>				
DOT Recreational Projects	26	26	21	5
Blackstone Bikepath Design	1,298	1,298	471	827
RICAP - Dam Repair	700	839	753	86
General Revenue Total	7,540	8,231	8,335	(104)
Federal Funds Total	1,998	2,472	1,835	637
Restricted Receipts Total	6,708	6,310	2,702	3,608
Total - Policy and Administration	18,269	19,176	14,117	5,059
<i>Natural Resources</i>				
RICAP - Westerly Boat Ramp	87	87	86	1
RICAP - Fort Adams Rehabilitation	350	350	350	
RICAP - Recreational Facilities Improvement	516	75	12	63
RICAP - Fish and Wildlife Office/Laboratory	731	829	829	
RICAP - Wickford Marine Facility	50			
RICAP - Galilee Piers	909	328	98	230
RICAP - Newport Piers	1,800	1,407	913	494
RICAP - Boyd's Marsh Habitat Restoration	70	70		70
General Revenue Total	14,495	14,452	15,326	(874)
Federal Funds Total	12,829	13,151	7,797	5,354
Restricted Receipts Total	3,011	2,979	2,601	378
Total - Natural Resources	34,848	33,728	28,012	5,716
<i>Environmental Protection</i>				
Aquafund	55	57		57
General Revenue Total	9,150	8,917	8,824	93
Federal Funds Total	7,307	7,482	5,734	1,748
Restricted Receipts Total	2,026	2,295	2,466	(171)
Total - Environmental Protection	18,537	18,751	17,025	1,727
Total - DEPARTMENT OF ENVIRONMENTAL MANAGEMENT	71,654	71,655	59,153	12,502
COASTAL RESOURCES MANAGEMENT COUNCIL				
<i>Coastal Resources Management Council</i>				
General Revenue Total	1,438	1,392	1,156	236
RICAP - South Coast Restoration Project	145			
RICAP - Habitat Restoration - Allin's Cove	172			
Federal Funds Total	1,056	1,600	1,166	434

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual

General Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<i>Total - Coastal Resources Management Council</i>	2,810	2,992	2,322	670
Total - COASTAL RESOURCES MANAGEMENT COUNCIL	2,810	2,992	2,322	670
WATER RESOURCES BOARD				
<i>State Water Resources Board</i>				
RICAP - Big River Management Area	80	76	82	(6)
RICAP - Groundwater Protection/Acquisition	44	10	14	(4)
RICAP - Water Allocation Plan	400	270	278	(8)
RICAP - Supplemental Water Supplies Development	300	94	54	40
General Revenue Total	1,022	1,093	1,072	21
Restricted Receipts Total		133	94	39
<i>Total - State Water Resources Board</i>	1,845	1,676	1,595	82
Total - WATER RESOURCES BOARD	1,845	1,676	1,595	82
Total Expenditures	4,139,919	4,246,385	4,146,114	100,271
Other financing uses:				
Transfers to other funds	52,478	52,530	52,348	182
Total expenditures and other financing uses	4,192,397	4,298,915	4,198,462	100,453
Net change in fund balance	22,263	(34,083)	(104,347)	(70,264)
Fund balance, July 1, 2001	256,830	268,145	268,145	
Fund balance, June 30, 2002	279,093	\$ 234,062	\$ 163,798	\$ (70,264)
General revenue funds total	2,650,768	\$ 2,660,381	\$ 2,651,655	\$ 8,726
Federal grants funds total	1,292,229	1,368,012	1,289,575	78,437
Restricted Funds total	82,228	89,164	76,939	12,225
Other funds total	114,694	128,828	127,945	883
Statewide Grand Total	4,139,919	\$ 4,246,385	\$ 4,146,114	\$ 100,271

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual

Intermodal Surface Transportaion Fund

For the Fiscal Year Ended June 30, 2002

(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	\$ 131,600	\$ 125,800	\$ 130,000	\$ 4,200
Departmental restricted revenue	62,285	26,006	2,802	(23,204)
Federal grants	232,283	225,174	190,294	(34,880)
Other revenues	8,000	8,000	1,309	(6,691)
Total revenues	434,168	384,980	324,405	(60,575)
Other financing sources:				
Operating transfers in			44,861	44,861
Total revenues and other financing sources	434,168	384,980	369,266	(15,714)
Expenditures:				
Central Management				
Gasoline Tax	3,103	2,919	2,938	(19)
Federal Funds Total	4,310	4,304	1,305	2,999
Total - Central Management	7,413	7,223	4,243	2,980
Management and Budget				
Gasoline Tax	1,955	1,804	1,405	399
Total - Management and Budget	1,955	1,804	1,405	399
Infrastructure - Engineering				
Gasoline Tax	41,654	40,182	43,985	(3,803)
RICAP - RIPTA Land and Buildings	360	360		360
State Infrastructure Bank	1,000	1,000		1,000
State Match - Bond Funds			25,393	(25,393)
Land Sale Revenue	8,000	8,000	2,527	5,473
Federal Funds Total	227,973	220,871	188,989	31,882
Restricted Receipts Total	61,285	25,006	18,513	6,493
Total - Infrastructure - Engineering	340,272	295,419	279,407	16,012
Infrastructure - Maintenance				
Gasoline Tax	36,156	35,287	35,160	127
Total - Infrastructure - Maintenance	36,156	35,287	35,160	127
Total Expenditures	385,796	339,733	320,215	19,518
Other financing uses:				
Transfers to other funds			49,787	(49,787)
Total expenditures and other financing uses	385,796	339,733	370,002	(30,269)
Net change in fund balance	48,372	45,247	(736)	(45,983)
Fund balance, beginning			34,102	34,102
Fund balance, ending	\$ 48,372	\$ 45,247	\$ 33,366	\$ (11,881)

State of Rhode Island and Providence Plantations
 Required Supplementary Information
 Schedules of Funding Progress
 June 30, 2002
 (Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a / c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b / d)
6/30/1999	5,460,907	1,114,020	6,574,927	83.1%	1,168,300	95.4%
6/30/2000	5,859,719	1,375,068	7,234,787	81.0%	1,220,833	112.6%
6/30/2001	6,026,141	1,742,393	7,768,534	77.6%	1,287,476	135.3%

State Police Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a / c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b / d)
6/30/1999	8,481	2,361	10,842	78.2%	7,502	31.5%
6/30/2000	11,337	2,581	13,918	81.5%	8,917	28.9%
6/30/2001	14,386	2,264	16,650	86.4%	9,139	24.8%

Judicial Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Frozen Actuarial Liability (UFAL) (b)	Frozen Initial Liability (c) = (a + b)	Funded Ratio (a / c)	Covered Payroll (d)	Excess as a Percentage of Covered Payroll (b / d)
6/30/1999	5,522	1,894	7,416	74.5%	3,169	59.8%
6/30/2000	7,375	2,345	9,720	75.9%	3,533	66.4%
6/30/2001	9,190	2,836	12,026	76.4%	4,092	69.3%

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2002

An annual budget is adopted on a basis consistent with generally accepted accounting principles for the general fund and certain special revenue funds. Preparation and submission of the budget is governed by both the State Constitution and the Rhode Island General Laws. The budget, as enacted by the General Assembly and signed by the Governor, contains a complete plan of estimated revenues (general, federal and restricted), transfers in (general and restricted) and proposed expenditures.

The legal level of budgetary control, i.e. the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. Federal grant appropriations may also be limited by the availability of matching funds and may also require special approval from a federal agency before reallocating resources among programs.

Internal administrative and accounting budgetary controls utilized by the State consist principally of statutory restrictions on the expenditure of funds in excess of appropriations and the supervisory powers and functions exercised by management. Management cannot reduce the budget without special approval.

Unexpended general revenue appropriations lapse at the end of the fiscal year, unless the department/agency directors identify unspent appropriations related to specific projects/purchases and request a reappropriation. If the requests are approved by the Governor, such amounts are reappropriated for the ensuing fiscal year and made immediately available for the same purposes as the former appropriations. Unexpended appropriations of the General Assembly and its legislative commissions and agencies may be reappropriated by the Joint Committee on Legislative Services. If the sum total of all departments and agencies general revenue expenditures exceeds the total general revenue appropriations, it is the policy of management to lapse all unexpended appropriations, except those of the legislative branch and the Justice Link program.

Schedule of Expenditures of
Federal Awards

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Agriculture		
Inspection Grading and Standardization	10.162	\$ 321,719
Very Low to Moderate Income Housing Loans (See Note 2)	10.410	764,661
Rural Housing Preservation Grants	10.433	32,435
Food Donation (See Note 2)	10.550	4,139,788
Food Stamp Cluster:		
Food Stamps	10.551	63,602,742
State Administrative Matching Grants for Food Stamp Program	10.561	6,196,040
Child Nutrition Cluster:		
School Breakfast Program	10.553	3,923,580
National School Lunch Program	10.555	19,214,895
Special Milk Program for Children	10.556	105,183
Summer Food Service Program for Children	10.559	1,046,091
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557	17,834,078
Child and Adult Care Food Program	10.558	5,923,372
State Administrative Expenses for Child Nutrition	10.560	573,623
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	135,153
Nutrition Services Incentive	10.570	793,554
Team Nutrition Grants	10.574	204,931
Cooperative Forestry Assistance	10.664	643,509
		\$ 125,455,354
Total U.S. Department of Agriculture (See Note 1)		
U.S. Department of Commerce		
Public Works and Economic Development Cluster:		
Grants for Public Works and Economic Development Facilities (B)	11.300	\$ 484,443
Economic Adjustment Assistance (See Note 2)	11.307	13,062,894
Economic Development - Support for Planning Organizations	11.302	95,911
Interjurisdictional Fisheries Act of 1986	11.407	61,326
Coastal Zone Management Administration Awards	11.419	1,094,614
Coastal Zone Management Estuarine Research Reserves	11.420	670,880
Marine Fisheries Initiative (B)	11.433	24,127
Coastal Services Center	11.473	142,264
Atlantic Coastal Fisheries Cooperative Management Act (B)	11.474	155,571
		\$ 15,792,030
Total U.S. Department of Commerce (See Note 1)		
U.S. Department of Defense		
Procurement Technical Assistance for Business Firms	12.002	\$ 181,188
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	224,257
Federal Grants - Rhode Island National Guard	N/A	4,665,269
		\$ 5,070,714
Total U.S. Department of Defense (See Note 1)		
U.S. Department of Housing and Urban Development		
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families	14.103	\$ 988,052
Mortgage Insurance - Homes (See Note 2)	14.117	54,694,373
Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures (See Note 2)	14.142	238,983

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
Section 8 Project-Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	84,639,711
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	487,157
Home Equity Conversion Mortgages (See Note 2)	14.183	4,906,479
Community Development Block Grants/State's Program	14.228	7,338,072
Emergency Shelter Grants Program	14.231	247,100
Supportive Housing Program	14.235	3,533,228
Shelter Plus Care	14.238	410,157
HOME Investment Partnerships Program	14.239	4,711,545
Housing Opportunities for Persons with AIDS	14.241	371,543
Community Development Block Grants/Economic Development Initiative (B)	14.246	229,782
Fair Housing Assistance Program - State and Local	14.401	226,307
Section 8 Housing Choice Vouchers	14.871	5,061,059
Lead Based Paint Hazard Control in Privately-Owned Housing	14.900	683,506
Total U.S. Department of Housing and Urban Development (See Note 1)		\$ 168,767,054
U.S. Department of Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	\$ 4,284,663
Wildlife Restoration	15.611	753,084
Coastal Wetlands Planning, Protection and Restoration Act	15.614	1,229,934
Clean Vessel Act	15.616	5,042
Historic Preservation Fund Grants-In-Aid	15.904	559,257
Outdoor Recreation - Acquisition, Development and Planning	15.916	475,385
Total U.S. Department of Interior		\$ 7,307,365
U.S. Department of Justice		
Law Enforcement Assistance - Narcotics and Dangerous Drugs - Laboratory Analysis	16.001	\$ 37,332
State Domestic Preparedness Equipment Support Program	16.007	590,887
Juvenile Accountability Incentive Block Grants	16.523	1,513,561
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	1,022,102
Juvenile Justice and Delinquency Prevention - Special Emphasis	16.541	202,203
National Institute for Juvenile Justice and Delinquency Prevention	16.542	205,975
Gang-Free Schools and Communities - Community-Based Gang Intervention	16.544	5,685
Victims of Child Abuse	16.547	43,582
Title V - Delinquency Prevention Program	16.548	18,329
State Justice Statistics Program for Statistical Analysis Centers	16.550	87,480
National Criminal History Improvement Program	16.554	79,224
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	49,771
Crime Victim Assistance	16.575	1,066,308
Crime Victim Compensation	16.576	1,812,710
Byrne Formula Grant Program	16.579	1,383,891
Edward Byrne Memorial State and Local Law Enforcement Discretionary Grants Program	16.580	105,779
Drug Court Discretionary Grant Program	16.585	419,720
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	602,382
Violence Against Women Formula Grants	16.588	1,411,549
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	194,374
Local Law Enforcement Block Grants Program	16.592	11,243
Residential Substance Abuse Treatment for State Prisoners	16.593	224,941

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
State Identification Systems Grant Program	16.598	124,742
State Criminal Alien Assistance Program	16.606	3,216,989
Bulletproof Vest Partnership Program	16.607	(18,104)
Community Prosecution and Project Safe Neighborhoods	16.609	21,273
Closed-Circuit Televising of Child Victims of Abuse	16.611	159,099
Public Safety Partnership and Community Policing Grants	16.710	236,979
Enforcing Underage Drinking Laws Program	16.727	419,975
Total U.S. Department of Justice (See Note 1)		\$ 15,249,981
U.S. Department of Labor		
Labor Force Statistics	17.002	\$ 764,709
Compensation and Working Conditions	17.005	12,840
Employment Services Cluster:		
Employment Service	17.207	3,848,385
Disabled Veterans' Outreach Program	17.801	278,262
Local Veterans' Employment Representative Program	17.804	316,102
Unemployment Insurance (See Note 5)	17.225	238,792,584
Senior Community Service Employment Program	17.235	471,315
Trade Adjustment Assistance - Workers	17.245	2,406,529
JTPA Cluster:		
Employment and Training Assistance - Dislocated Workers	17.246	2,375
Job Training Partnership Act	17.250	(241)
Welfare-to-Work Grants to States and Localities	17.253	3,365,314
Workforce Investment Act	17.255	4,111,929
WIA Cluster:		
WIA Adult Program	17.258	648,554
WIA Youth Activities	17.259	1,791,315
WIA Dislocated Workers	17.260	2,526,433
Consultation Agreements	17.504	281,404
Total U.S. Department of Labor (See Note 1)		\$ 259,617,809
U.S. Department of Transportation		
Boating Safety Financial Assistance	20.005	\$ 460,307
Airport Improvement Program	20.106	8,787,834
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	157,716,071
Motor Carrier Safety	20.217	598,038
Federal Transit Cluster:		
Federal Transit - Capital Investment Grants	20.500	4,612,204
Federal Transit - Formula Grants	20.507	25,544,870
Federal Transit - Metropolitan Planning Grants	20.505	235,873
Formula Grants for Other Than Urbanized Areas (A)	20.509	922,836
Capital Assistance for Elderly Persons and Persons with Disabilities	20.513	1,272,946
Transit Planning and Research	20.514	1,080
Highway Safety Cluster:		
State and Community Highway Safety	20.600	1,715,235
Pipeline Safety	20.700	36,638
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	94,694
Freight Rail Improvement Project	None	7,257,272
Total U.S. Department of Transportation (See Note 1)		\$ 209,255,898

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
Equal Opportunity Employment Commission		
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	\$ 265,817
Total Equal Opportunity Employment Commission (See Note 1)		\$ 265,817
General Services Administration		
Donation of Federal Surplus Personal Property (See Note 2)	39.003	\$ 286,842
Total General Services Administration (See Note 1)		\$ 286,842
National Foundation on the Arts and the Humanities		
Promotion of The Arts - Partnership Agreements	45.025	\$ 504,328
Promotion of the Arts - Leadership Initiatives	45.026	15,500
Promotion of the Humanities - Federal/State Partnership	45.129	1,003
Institute of Museum and Library Services	45.301	701,516
Total National Foundation on the Arts and the Humanities (See Note 1)		\$ 1,222,347
National Science Foundation		
Mathematical and Physical Sciences	47.049	\$ (202)
Education and Human Resources	47.076	26,505
Total National Science Foundation (See Note 1)		\$ 26,303
U.S. Department of Veteran's Affairs		
Grants to States for Construction of State Home Facilities	64.005	\$ 707,237
Veterans State Nursing Home Care	64.015	4,593,814
Veterans Housing - Guaranteed and Insured Loans (See Note 2)	64.114	5,853,155
All-Volunteer Force Educational Assistance	64.124	29,930
State Cemetery Grants	64.203	1,063,585
Total U.S. Department of Veteran's Affairs (See Note 1)		\$ 12,247,721
Environmental Protection Agency		
Air Pollution Control Program Support	66.001	\$ 1,489,842
State Indoor Radon Grants	66.032	17,859
Water Pollution Control - State and Interstate Program Support	66.419	1,121,109
State Public Water System Supervision	66.432	284,650
State Underground Water Source Protection	66.433	10,813
National Estuary Program	66.456	139,963
Capitalization Grants for State Revolving Funds	66.458	17,635,140
Nonpoint Source Implementation Grants	66.460	752,803
Water Quality Cooperative Agreements	66.463	147,055
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	3,528
Capitalization Grants for Drinking Water State Revolving Fund	66.468	3,004,011
Beach Monitoring and Notification Program Development Grants	66.472	24,639
Environmental Protection Consolidated Research	66.500	89,339
Environmental Protection Consolidated Grants - Program Support	66.600	70,398
Surveys, Studies, Investigations and Special Purpose Grants	66.606	1,088,949
State Information Grants	66.608	25,623
Innovative Community Partnership	66.651	8,756
Consolidated Pesticide Enforcement Cooperative Agreements	66.700	334,347
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	66.707	379,125

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
Pollution Prevention Grants Program	66.708	52,000
Hazardous Waste Management State Program Support	66.801	532,318
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	820,825
Leaking Underground Storage Tank Trust Fund	66.805	1,051,101
Solid Waste Management Assistance	66.808	94,965
CEPP Technical Assistance Grants Program (B)	66.810	4,207
Brownsfield Pilots Cooperative Agreements	66.811	30,425
Total Environmental Protection Agency (See Note 1)		\$ 29,213,790
U.S. Department of Energy		
State Energy Program	81.041	\$ 673,686
Weatherization Assistance for Low-Income Persons	81.042	786,614
Office of Science Financial Assistance Program	81.049	8,881
Regional Biomass Energy Programs	81.079	11,856
Total U.S. Department of Energy (See Note 1)		\$ 1,481,037
Federal Emergency Management Agency		
Hazardous Materials Training Program for Implementation of the Superfund Amendment and Reauthorization Act (SARA) of 1986	83.011	\$ 10,466
Community Assistance Program - State Support Services Element (CAP - SSSE)	83.105	37,146
First Responder Counter-Terrorism Training Assistance	83.547	14,321
National Dam Safety Program	83.550	39,005
Emergency Management Performance Grants	83.552	1,815,912
Total Federal Emergency Management Agency (See Note 1)		\$ 1,916,850
U.S. Department of Education		
Adult Education - State Grant Program	84.002	\$ 2,334,538
Civil Rights Training and Advisory Services	84.004	2,755
Student Financial Assistance Cluster: (See Note 6)		
Federal Supplemental Educational Opportunity Grants	84.007	2,476,080
Federal Family Education Loans (See Note 2)	84.032	60,756,534
Federal Work-Study Program	84.033	1,500,928
Federal Perkins Loan Program-Federal Capital Contribution (See Note 2)	84.038	13,731,748
Federal Pell Grant Program	84.063	15,729,473
Title I Grants to Local Educational Agencies	84.010	21,656,008
Migrant Education - State Grant Program	84.011	72,922
Title I Program for Neglected and Delinquent Children	84.013	285,746
Children with Deaf/Blindness	84.025	(25)
Special Education Cluster:		
Special Education - Grants to States	84.027	23,224,072
Special Education - Preschool Grants	84.173	1,628,349
Preparation of Personnel	84.029	39,758
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032	2,849,389
TRIO Cluster:		
TRIO-Student Support Services	84.042	571,419
TRIO-Talent Search	84.044	354,007
TRIO-Upward Bound	84.047	609,589
TRIO-Educational Opportunity Centers	84.066	647,398
Vocational Education - Basic Grants to States	84.048	5,188,822

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
Leveraging Educational Assistance Partnership	84.069	291,669
Fund for the Improvement of Postsecondary Education	84.116	137,383
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	8,292,435
National Institute on Disability and Rehabilitation Research	84.133	10,180
Immigrant Education	84.162	527,979
Magnet Schools Assistance	84.165	10,920
Independent Living - State Grants	84.169	300,501
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	303,387
Special Education - Grants for Infants and Families With Disabilities	84.181	2,032,524
Safe and Drug-Free Schools and Communities - National Programs	84.184	120,560
Byrd Honors Scholarships	84.185	139,500
Safe and Drug-Free Schools and Communities - State Grants	84.186	2,013,481
Supported Employment Services for Individuals with Severe Disabilities	84.187	321,967
Bilingual Education - Professional Development	84.195	84,905
Education for Homeless Children and Youth	84.196	96,495
Even Start - State Educational Agencies	84.213	853,664
Fund for the Improvement of Education	84.215	1,127,601
Capital Expenses	84.216	10,979
Assistive Technology	84.224	420,492
Tech-Prep Education	84.243	643,090
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	18,327
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	679,007
School to Work Opportunities	84.278	1,436,050
Eisenhower Professional Development State Grants	84.281	1,554,494
Charter Schools	84.282	451,724
Twenty-First Century Community Learning Centers	84.287	470,703
Innovative Education Program Strategies	84.298	1,788,934
Technology Innovation Challenge Grants	84.303	480,066
Technology Literacy Challenge Fund Grants	84.318	2,229,083
Special Education - Research and Innovation to Improve Services and Results for Children with Disabilities	84.324	188,004
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	175,588
Advanced Placement Program	84.330	6,448
Grants to States for Incarcerated Youth Offenders	84.331	29,119
Comprehensive School Reform Demonstration (A)	84.332	445,669
Demonstration Project to Ensure Students with Disabilities Receive a Higher Education	84.333	135,294
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	2,022,200
Teacher Quality Enhancement Grants	84.336	987,206
Reading Excellence	84.338	1,263,513
Class Size Reduction	84.340	7,017,837
Occupational and Employment Information State Grants	84.346	108,018
Title I Accountability Grants	84.348	29,895
School Renovation Grants	84.352	647,076
National Writing Project	84.928	29,240
Total U.S. Department of Education (See Note 1)		<u>\$ 193,592,717</u>
National Archives and Records Administration		
National Historical Publications and Records Grants	89.003	<u>\$ 17,236</u>
Total National Archives and Records Administration (See Note 1)		<u>\$ 17,236</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Health and Human Services		
Public Health and Social Services Emergency Fund	93.003	\$ 50,100
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	178,228
Special Programs for the Aging - Title VII, Chapter 3 - Programs for the Prevention of Elder Abuse, Neglect, and Exploitation	93.041	24,280
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	46,536
Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	93.043	118,598
Aging Cluster:		
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	2,113,475
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045	1,973,697
Alzheimer's Disease Demonstration Grants to States	93.051	581,376
Food and Drug Administration - Research	93.103	6,932
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	1,394,496
Maternal and Child Health Federal Consolidated Programs	93.110	363,537
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	524,818
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	176,971
Emergency Medical Services for Children	93.127	142,240
Primary Care Services - Resource Coordination and Development	93.130	222,472
Injury Prevention and Control Research and State and Community Based Programs	93.136	72,207
Projects for Assistance in Transition from Homelessness (PATH)	93.150	297,997
Health Program for Toxic Substances and Disease Registry	93.161	31,190
Grants for State Loan Repayment	93.165	97,851
Research Related to Deafness and Communication Disorders	93.173	60,381
Disabilities Prevention	93.184	417,445
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	862,951
Family Planning - Services	93.217	822,859
Consolidated Knowledge Development and Application (KD&A) Program	93.230	515,964
Abstinence Education	93.235	91,296
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	69,421
Mental Health Research Grants	93.242	205,727
Innovative Food Safety Projects	93.245	25,985
Universal Newborn Hearing Screening	93.251	219,471
Immunization Grants	93.268	1,399,876
Drug Abuse National Research Service Awards for Research Training	93.278	3,522
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	4,487,575
Student Financial Assistance Cluster: (See Note 6)		
Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students (See Note 2)	93.342	1,442,252
Nursing Student Loans (See Note 2)	93.364	1,031,395
Cancer Detection and Diagnosis Research	93.394	10,245
Promoting Safe and Stable Families	93.556	1,495,986
Temporary Assistance for Needy Families	93.558	95,682,995
Child Support Enforcement	93.563	8,341,986
Refugee and Entrant Assistance - State Administered Programs	93.566	293,217
Low-Income Home Energy Assistance	93.568	12,360,592

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
Community Services Block Grant	93.569	3,501,621
Community Services Block Grant - Discretionary Awards	93.570	92,983
Child Care Cluster:		
Child Care and Development Block Grant	93.575	6,487,713
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11,828,399
Empowerment Zones Program	93.585	219,262
State Court Improvement Program	93.586	117,085
Grants to States for Access and Visitation Programs	93.597	75,467
Head Start	93.600	93,782
Child Support Enforcement Demonstrations and Special Projects	93.601	14,029
Adoption Incentive Payments	93.603	370,853
Developmental Disabilities Basic Support and Advocacy Grants	93.630	406,272
Developmental Disabilities Projects of National Significance	93.631	166,790
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	376,953
Children's Justice Grants to States	93.643	95,361
Child Welfare Services - State Grants	93.645	1,234,705
Foster Care - Title IV-E	93.658	14,257,961
Adoption Assistance	93.659	4,635,473
Social Services Block Grant	93.667	6,898,139
Child Abuse and Neglect State Grants	93.669	480,652
Family Violence Prevention and Services - Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	1,011,416
Chaffee Foster Care Independent Living	93.674	941,111
State Children's Insurance Program	93.767	33,014,747
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	21
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	612,182
State Survey and Certification of Health Care Providers and Suppliers	93.777	2,159,653
Medical Assistance Program (See Notes 1 and 4)	93.778	735,841,665
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	154,302
Grants to States for Operation of Offices of Rural Health	93.913	62,331
HIV Care Formula Grants	93.917	2,688,392
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	1,487,631
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	694,601
HIV Prevention Activities - Health Department Based	93.940	1,666,259
Human Immunodeficiency Virus/(HIV) Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	224,411
Block Grants for Community Mental Health Services	93.958	2,020,722
Block Grants for Prevention and Treatment of Substance Abuse	93.959	5,981,943
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	404,469
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	715,959
Preventive Health and Health Services Block Grant	93.991	640,913
Maternal and Child Health Services Block Grant to the States	93.994	1,188,312
Total U.S. Department of Health and Human Services (See Note 1)		\$ 981,122,682

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
Corporation for National and Community Service		
Learn and Serve America - School and Community Based Programs	94.004	\$ 16,288
Americorps	94.006	438,604
Foster Grandparent/Senior Companion Cluster: Senior Companion Program	94.016	<u>320,713</u>
Total Corporation for National and Community Service (See Note 1)		<u>\$ 775,605</u>
Social Security Administration		
Disability Insurance/SSI Cluster: Social Security - Disability Insurance	96.001	\$ 6,780,086
Social Security - Benefits Planning, Assistance, and Outreach Program	96.008	<u>74,796</u>
Total Social Security Administration (See Note 1)		<u>\$ 6,854,882</u>
Research and Development Cluster:		
U.S. Department of Agriculture		
Agricultural Research - Basic and Applied Research	10.001	\$ 91,073
Plant and Animal Disease, Pest Control, and Animal Care	10.025	20,180
Grants for Agricultural Research, Special Research Grants	10.200	255,467
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,528,770
Grants for Agricultural Research - Competitive Research Grants	10.206	502,916
Higher Education Challenge Grant	10.217	52,232
Buildings and Facilities Program	10.218	65,738
Higher Education Multicultural Scholars Program	10.220	32,832
Fund For Rural American - Research, Education, and Extension Activities	10.224	45,420
Initiative for Future Agriculture and Food Systems	10.302	41,597
Integrated Programs	10.303	580,794
Cooperative Extension Service	10.500	99,728
Forestry Research	10.652	5,226
Cooperative Forestry Assistance	10.664	9,971
Other Research and Development	N/A	16,644
U.S. Department of Commerce		
Census Intergovernmental Services	11.004	22,111
Economic Development - Public Works Impact Program	11.304	101,079
Sea Grant Support	11.417	2,573,287
Coastal Zone Management Administration Awards	11.419	160,450
Coastal Zone Management Estuarine Research Reserves	11.420	75,717
Fisheries Development and Utilization Research and Development Grants Cooperative Agreements Program	11.427	85,058
Undersea Research	11.430	165,976
Climate and Atmospheric Research	11.431	17,807
Cooperative Science and Education Program	11.455	620,642
Special Oceanic and Atmospheric Projects	11.460	63,835
Habitat Conservation	11.463	24,565
Unallied Science Center	11.472	(1,017)
Coastal Services Center	11.473	(2,522)

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	274,254
Experimental Program to Stimulate Competitive Technology	11.614	7,172
Other Research and Development	N/A	19,395
U.S. Department of Defense		
Basic and Applied Scientific Research	12.300	6,266,447
Basic Scientific Research	12.431	314,026
Air Force Defense Research Sciences Program	12.800	137,593
Other Research and Development	N/A	197,130
U.S. Department of Housing and Urban Development		
Community Outreach Partnership Center Program	14.511	92,820
Community Development Work-Study Program	14.512	41,899
U.S. Department of Interior		
Fish and Wildlife Management Assistance	15.608	30,118
Assistance to State Water Resources Research Institutes	15.805	73,806
U.S. Geological Survey - Research and Data Acquisition	15.808	213,642
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	6,727
National Cooperative Geologic Mapping Program	15.810	25,586
Outdoor Recreation - Acquisition, Development and Planning	15.916	14,395
Other Research and Development	N/A	545,578
U.S. Department of Justice		
Grants to Reduce Violent Crime Against Women on Campus	16.525	134,712
Drug-Free Communities Support Program Grants	16.729	7,972
Other Research and Development	N/A	5,845
U.S. Department of Labor		
Other Research and Development	N/A	59,257
U.S. Department of State		
Other Research and Development	N/A	4,915,532
U.S. Department of Transportation		
Aviation Research Grants	20.108	39,336
Highway Planning and Construction	20.205	80,329
University Transportation Centers Program	20.701	1,828,618
Other Research and Development	N/A	46,462
Federal Mediation Conciliation Service		
Labor Management Cooperation	34.002	10,293
National Aeronautics and Space Administration		
Aerospace Education Services Program	43.001	481,560
Technology Transfer	43.002	1,326,012
Other Research and Development	N/A	36,054
National Foundation on the Arts and the Humanities		
Promotion of the Humanities - Federal/State Partnership	45.129	10,121
Institute of Museum and Library Services - National Leadership Grants	45.312	108,341
National Science Foundation		
Engineering Grants	47.041	533,066
Mathematical and Physical Sciences	47.049	550,239
Geosciences	47.050	5,304,061
Computer and Information Science and Engineering	47.070	276,651
Biological Science	47.074	101,197
Social, Behavioral, and Economic Sciences	47.075	21,206
Education and Human Resources	47.076	738,755
Polar Programs	47.078	105,630
Other Research and Development	N/A	586,493

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2002

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Veterans Affairs		
Other Research and Development	N/A	2,376
Environmental Protection Agency		
National Estuary Program	66.456	121,444
Wetlands Grants	66.461	78,894
Environmental Protection - Consolidated Research	66.500	239,445
Environmental Protection - Consolidated Grants - Program Support	66.600	14,986
Surveys, Studies, Investigations and Special Purpose Grants	66.606	190,695
Training and Fellowships for the Environmental Protection Agency	66.607	91,478
Pollution Prevention Grants Program	66.708	82,041
Other Research and Development	N/A	831
U.S. Department of Energy		
Office of Science Financial Assistance Program	81.049	203,962
U.S. Information Agency		
Education Exchange - Graduate Students	82.001	297
U.S. Department of Health and Human Services		
Biological Response to Environmental	93.113	192,467
Grants to Increase Organ Donations	93.134	460,766
Mental Health Research Grants	93.242	7,399
Alcohol Research Programs	93.273	1,457,057
Drug Abuse Research Program	93.279	21,595
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	311,944
Nurse Practitioner and Nurse-Midwifery Education Programs	93.298	264,586
Advanced Education Nursing Traineeships	93.358	62,264
Nursing Research	93.361	288,299
Research Infrastructure	93.389	589,380
Cancer Cause and Prevention Research	93.393	670,400
Cancer Detection and Diagnosis Research	93.394	679,136
Cancer Treatment Research	93.395	256,603
Head Start	93.600	2,184
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	161,366
Heart and Vascular Diseases Research	93.837	327,949
Allergy, Immunology and Transplantation Research	93.855	43,926
Microbiology and Infectious Disease Research	93.856	852,573
Pharmacology, Physiology, and Biological Chemistry Research	93.859	309,740
Population Research	93.864	36,099
Aging Research	93.866	669,521
Rural Health Medical Education Demonstration Projects	93.906	49,321
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Early Detection Program	93.919	328,034
Grants for Geriatric Education Centers	93.969	198,838
Other Research and Development	N/A	52,131
Total Research and Development Cluster (See Note 1)		\$ 43,143,933
Other Expenditures of Federal Awards		1,707,261
Total Expenditures of Federal Awards (See Notes 1 and 2)		\$ 2,080,391,228

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the State of Rhode Island and Providence Plantations (the State). The reporting entity is defined in the Notes to the Basic Financial Statements that are presented in section A of this report (see Note 1 to the basic financial statements – Summary of Significant Accounting Policies – B. Reporting Entity).

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule differ from amounts presented in, or used in the preparation of, the basic financial statements.

Programs are generally listed in CFDA number order by federal funding agency. When no CFDA number has been assigned by the federal government, “None” is indicated in the schedule. When the CFDA number is not available from the State or component unit’s accounting records then N/A for not available is indicated in the schedule. The Research and Development (R&D) Cluster is presented at the end of the schedule because there are multiple federal funding agencies. As a result, total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs.

Cash assistance is presented using the same basis of accounting as that used in reporting the expenditures (or expenses) of the related funds and component units in the State’s basic financial statements (see Note 1 to the basic financial statements – Summary of Significant Accounting Policies – D. Measurement Focus Basis of Accounting and Financial Statement Presentation). Medical Assistance Program expenditures are reported net of the applicable federal share of rebates collected during fiscal year 2002 (see Note 4).

Negative expenditure amounts reported in the schedule result from expenditure credits or adjustments recorded during the fiscal year.

Non-cash expenditures of federal awards are presented as follows:

- Food Donation (CFDA 10.550) – reported at the fair market value of food distributed.
- The following guaranteed/insured mortgage loan programs are reported at the value of loans disbursed during the fiscal year: Very Low to Moderate Income Housing Loans (CFDA 10.410); Mortgage Insurance-Homes (CFDA 14.117); Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures (CFDA 14.142); Veterans Housing - Guaranteed and Insured Loans (CFDA 64.114); and Home Equity Conversion Mortgages (CFDA 14.183).
- Economic Adjustment Assistance (CFDA 11.307) – includes the outstanding balance of loans originated under, and the balance of cash and cash equivalents of, the Revolving Loan Fund, and the administrative expenses paid from income earned.
- Donation of Federal Surplus Personal Property (CFDA 39.003) – reported at the fair market value of the donated property at the time of receipt.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

- Federal Family Education Loans (CFDA 84.032) - reported at the value of loans made during the fiscal year, plus interest benefits and special allowance payments.
- Federal Perkins Loan Program – Federal Capital Contribution (CFDA 84. 038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) - reported at the balance of loans outstanding at June 30, 2002.

NOTE 2. NON-CASH ASSISTANCE

<u>CFDA Number</u>	<u>Loan, Loan Guarantee and Insurance Programs</u>	<u>Expenditures of Federal Awards - Year Ended June 30, 2002</u>	<u>Insurance, Loans and Loan Guarantees Outstanding - June 30, 2002</u>
10.410	Very Low to Moderate Income – Housing Loans	\$ 764,661	\$ 22,532,914
11.307	Economic Adjustment Assistance	13,062,894	6,199,533
14.117	Mortgage Insurance – Homes	54,694,373	311,709,165
14.142	Property Improvement Loan Insurance for Improving All Existing Structures and Building of New Nonresidential Structures	238,983	1,655,906
14.183	Home Equity Conversion Mortgages	4,906,479	21,326,771
64.114	Veterans Housing – Guaranteed and Insured Loans	5,853,155	39,147,153
84.032	Federal Family Education Loans	51,841,555	
84.032	Federal Family Education Loans (Guaranty Agency) (a)		1,014,919,920
84.038	Federal Perkins Loan Program – Federal Capital Contribution	13,697,862	13,697,862
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,442,252	1,442,252
93.364	Nursing Student Loans	1,031,395	1,031,395
	<u>Other Non-Cash Assistance</u>		
10.550	Food Donation	4,139,788	
39.003	Donation of Federal Surplus Personal Property	286,842	
	Total Non-Cash Assistance	<u>\$ 151,960,239</u>	

(a) Administrative cost allowances (cash assistance) totaling \$2,849,389 are reported in the schedule, however, for the purpose of determining federal awards expended in accordance with OMB Circular A-133 loan guarantees outstanding are added to the cash assistance amount for the FFEL (Guaranty Agency) Program – CFDA 84.032. The amount of Federal Family Education Loan guarantees outstanding was not available, the total reflected above for the guarantee agency represents the original principal amount of loans guaranteed.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2002

NOTE 3. FEDERAL AWARDS RECEIVED FROM PASS-THROUGH ENTITIES

The majority of expenditures of federal awards reflected in the schedule are from awards made directly by the federal government to the State and its component units. An immaterial amount of funds have been passed-through from other entities to component units of the State totaling approximately \$5.2 million. Of this amount, \$3.8 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. Of the remaining amount (\$1.4 million), approximately \$680,000 is unidentified as to either the CFDA number and/or the pass-through entity.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2002:

<u>Program</u>	<u>CFDA Number</u>	<u>Rebate Amount</u>
Medical Assistance Program	93.778	\$ 25,417,107
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$ 4,445,290

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance) which had been purchased by program participants made the rebates. The Medical Assistance Program rebates reduced previously- incurred program expenditures.

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA Number 17.225) represent \$201.1 million funded from the State's account in the federal Unemployment Trust Fund and \$37.7 million funded by federal grants.

NOTE 6. STUDENT FINANCIAL ASSISTANCE CLUSTER

Expenditures for the Student Financial Assistance Cluster are listed under two separate departments, Department of Education and Department of Health and Human Services. The total expenditures for the cluster are \$96,668,410.

Auditor's Reports

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ERNEST A. ALMONTE, CPA, CFE
AUDITOR GENERAL
EALMONTE@OAG.STATE.RI.US

STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2002 which collectively comprise the basic financial statements of the State, and have issued our report thereon dated October 17, 2003. The scope of our audit was limited because we were unable to obtain sufficient evidence regarding the completeness of the furniture and equipment, and building improvement categories of capital assets included in the governmental activities section of the State's basic financial statements at June 30, 2002. Our report was qualified because of (1) the incomplete recording of the liability for compensated absences within governmental activities, (2) the omission of certain fines and penalties revenue and receivable from the governmental activities section of the statements of net assets and activities and the general fund financial statements, and (3) the omission of encumbrances outstanding at June 30, 2002 as a component of reserved fund balance of the governmental funds.

Our opinions expressed therein, insofar as they relate to component units whose financial statements were audited by other auditors, was based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The reports of other auditors who audited the component units' compliance with laws, regulations, contracts and grants in accordance with *Government Auditing Standards* were furnished to us and this report, insofar as it relates to these component units, was based solely on the reports of the other auditors.

The results of our tests and the reports of the other auditors disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we will report to management of the State in a separate communication. Other auditors also noted certain immaterial instances of noncompliance that they have communicated to management of the component units.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. The reports of the other auditors on the internal control over financial reporting of component units in accordance with *Government Auditing Standards* were furnished to us and this report, insofar as it relates to these component units, was based solely on the reports of the other auditors.

We noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 2002-1, 2002-2, 2002-3, 2002-4, 2002-5, 2002-6, 2002-7, 2002-8, 2002-9, 2002-10, 2002-11, 2002-12, 2002-13, 2002-14, and 2002-15.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting and the reports of the other auditors would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 2002-1, 2002-2, and 2002-3, 2002-4, 2002-5, 2002-6, 2002-7, 2002-8, 2002-9, 2002-14, and 2002-15 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that we will report to management of the State in a separate communication. Other auditors also

noted other matters involving the internal control over financial reporting that they have communicated to management of the component units.

This report is intended solely for the information and use of the Finance Committee of the House of Representatives, the Joint Committee on Legislative Services, the Governor and management of the State, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ernest A. Almonte, CPA, CFE
Auditor General

October 17, 2003



ERNEST A. ALMONTE, CPA, CFE
AUDITOR GENERAL
EALMONTE@OAG.STATE.RI.US

STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Finance Committee of the House of Representatives and
Joint Committee on Legislative Services, General Assembly,
State of Rhode Island and Providence Plantations:

Compliance

We have audited, except as described in the next three sentences, the compliance of the State of Rhode Island and Providence Plantations (the State) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. We did not audit the compliance of component units administering major federal programs with the requirements described in the preceding sentence. These major federal programs had combined expenditures of federal awards representing 18% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2002. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs administered by these component units were furnished to us, and this report insofar as it relates to the component units that were audited by other auditors, is based solely on the reports of the other auditors. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other

procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State with the Food Stamp Cluster, Unemployment Insurance, and Rehabilitation Services – Vocational Rehabilitation Grants to States programs regarding the equipment and real property management requirement, nor were we able to satisfy ourselves as to the State's compliance with this requirement by other auditing procedures.

As described in Findings 2002-24, 2002-25 and 2002-26 in the accompanying schedule of findings and questioned costs, the State (through its component unit - Rhode Island Economic Development Corporation) did not comply with requirements regarding reporting and the Davis Bacon Act that are applicable to its Economic Adjustment Assistance program within the Public Works and Economic Development Cluster. Compliance with these requirements is necessary, in the opinion of the auditor of the component unit, for the State to comply with the requirements applicable to that program.

As described in Finding 2002-44 in the accompanying schedule of findings and questioned costs, the State did not comply with the reporting requirement that is applicable to the Low-Income Home Energy Assistance Program. Compliance with this requirement is necessary, in our opinion for the State to comply with the requirements applicable to that program.

In our opinion, based on the results of our audit and the reports of the other auditors, and except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the requirements of the Food Stamp Cluster, Unemployment Insurance, Rehabilitation Services – Vocational Rehabilitation Grants to States, programs regarding the equipment and real property management requirement, and except for the noncompliance described in the two preceding paragraphs, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2002. The results of our auditing procedures and the reports of the other auditors also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2002-27, 2002-29, 2002-32, 2002-50, and 2002-64.

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect

on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133. Other auditors have audited certain major federal programs administered by component units which had combined expenditures of federal awards representing 18% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2002. The other auditors have furnished us their reports on their consideration and testing of the component units' internal control over compliance with requirements that could have a direct and material effect on a major federal program.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. The other auditors also noted certain matters involving the component units' internal control over compliance and its operation that they consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as 2002-16, 2002-17, 2002-18, 2002-19, 2002-20, 2002-21, 2002-22, 2002-23, 2002-24, 2002-25, 2002-26, 2002-28, 2002-30, 2002-31, 2002-33, 2002-34, 2002-35, 2002-36, 2002-37, 2002-38, 2002-39, 2002-40, 2002-41, 2002-42, 2002-43, 2002-44, 2002-45, 2002-46, 2002-47, 2002-48, 2002-49, 2002-51, 2002-52, 2002-53, 2002-54, 2002-55, 2002-56, 2002-57, 2002-58, 2002-59, 2002-60, 2002-61, 2002-62, 2002-63, 2002-65 and 2002-66.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration, and the other auditors' consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider, based on our auditing procedures and the reports of other auditors, findings 2002-16, 2002-37, 2002-44 and 2002-58 to be material weaknesses.

This report is intended solely for the information and use of the Finance Committee of the House of Representatives, the Joint Committee on Legislative Services, the Governor and management of the State, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ernest A. Almonte, CPA, CFE
Auditor General

October 17, 2003

**Schedule of Findings and
Questioned Costs**

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I – Summary of Auditor’s Results

Basic Financial Statements

- 1) The independent auditor’s report on the basic financial statements expressed a qualified opinion.
- 2) The audit of the basic financial statements disclosed reportable conditions and material weaknesses in internal control over financial reporting.
- 3) The audit disclosed no instances of noncompliance which are material to the basic financial statements.

Federal Awards

- 4) The audit disclosed reportable conditions in internal control over major programs, some of which were classified as material weaknesses.
- 5) The independent auditor’s report on compliance for major programs expressed an unqualified opinion for all major programs except for the following programs in which it expressed a qualified opinion:

<u>Program</u>	<u>CFDA #</u>
Food Stamp Cluster:	
Food Stamps	10.551
State Administrative Matching Grants for Food Stamp Program	10.561
Public Works and Economic Development Cluster:	
Grants for Public Works and Economic Development Facilities	11.300
Economic Adjustment Assistance	11.307
Unemployment Insurance	17.225
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
Low-Income Home Energy Assistance	93.568

- 6) The audit disclosed findings that must be reported under OMB Circular A-133 provisions.
- 7) Major programs are listed beginning on the next page.
- 8) The dollar threshold used to distinguish between Type A and Type B programs was \$6,241,174.
- 9) The State did not qualify as a low-risk auditee as defined by OMB Circular A-133.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I – Summary of Auditor’s Results

Major Programs

<u>Program Title</u>	<u>CFDA Number</u>
Food Stamp Cluster:	
Food Stamps	10.551
State Administrative Matching Grants for Food Stamp Program	10.561
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
Special Supplemental Nutrition Program for Women, Infants and Children	10.557
Public Works and Economic Development Cluster:	
Grants for Public Works and Economic Development Facilities	11.300
Economic Adjustment Assistance	11.307
Mortgage Insurance – Homes	14.117
Section 8 Project Based Cluster:	
Section 8 New Construction and Substantial Rehabilitation	14.182
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856
Community Development Block Grants / State’s Program	14.228
Unemployment Insurance	17.225
Airport Improvement Program	20.106
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
Veterans State Nursing Home Care	64.015
Veterans Housing – Guaranteed and Insured Loans	64.114
Capitalization Grants for State Revolving Funds	66.458
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Family Education Loans	84.032
Federal Work-Study Program	84.033
Federal Perkins Loan Program – Federal Capital Contributions	84.038

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I – Summary of Auditor’s Results

Major Programs (cont’d)

<u>Program Title</u>	<u>CFDA Number</u>
Student Financial Assistance Cluster: continued	
Federal Pell Grant Program	84.063
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364
Title I Grants to Local Educational Agencies	84.010
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Federal Family Education Loans (Guaranty Agency)	84.032
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
Class Size Reduction	84.340
Temporary Assistance for Needy Families	93.558
Child Support Enforcement	93.563
Low-Income Home Energy Assistance	93.568
Child Care Cluster:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596
Foster Care – Title IV-E	93.658
Social Services Block Grant	93.667
State Children’s Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers	93.777
Medical Assistance Program	93.778
Disability Insurance/SSI Cluster:	
Social Security – Disability Insurance	96.001
Research and Development Cluster	Various

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

Finding 2002-1

CONTROLS OVER ACCOUNTING AND FINANCIAL REPORTING - STATEWIDE ACCOUNTING SYSTEM

The State implemented a new statewide accounting system during fiscal 2002. As a result of the design and implementation of the new accounting system, accounting controls were either inadequate or inconsistently operational for all or part of the fiscal year. New accounting policies and procedures were evolving during the year as implementation problems were discovered and resolved. We observed the following control weaknesses which affected the State's controls over receipts, disbursements and financial reporting.

General Ledger

- The general ledger component of the RISAIL accounting system was not operational until June 2002. Consequently, accounting controls were weakened because cash balances and other balance sheet account balances were not available throughout the year. Reporting capabilities were not fully implemented until after the close of fiscal year 2002. Consequently, very limited information was available to assess the validity of accounting data, assess compliance with budget and other legal requirements, and reconcile to subsidiary accounting systems.
- Additionally, transactions were processed throughout fiscal 2002 without a complete understanding of how the general ledger component of the accounting system would record aspects of these transactions. Consequently, cash and interfund receivable and payable balances were significantly misstated in the June 30, 2002 general ledger and required significant audit adjustment.
- The accounting system is not integrated -- receivables, capital assets, long-term liabilities etc. are all recorded by journal entry at fiscal year end -- there is no interconnectivity to the accounting system. Various accounting system modules have not been implemented to account for these transaction types. Accounting control is significantly enhanced when transactions affecting changes in balance sheet accounts are recorded and reconciled to the accounting system.

Interfund transactions

- Interfund payables and receivables were not accurately reported by the system at June 30, 2002. This occurred principally because transactions intended to settle interfund receivable and payable balances did not result in the desired effect. Control was lost over interfund cash moves because book entries were not consistently recorded simultaneously with the actual movements of cash. Additionally, cash did not always

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

move when book entries were recorded. Significant audit adjustments were required to correct cash and interfund balances.

Disbursements

- ❑ Controls over certain types of cash disbursements (wire transfers and interfund movements of cash) were weakened because documentation and authorization control procedures were not fully designed and implemented at the inception of the new accounting system. Wire transfers were authorized using temporary documents. Many of the transactions were not recorded until many months later in the accounting system and some were not recorded.
- ❑ The actual movement of cash by the Office of the General Treasurer for disbursements allocated to multiple funds was inconsistent with the recording of these transactions in the accounting system.
- ❑ Invoices were not consistently referenced to purchase orders prior to disbursement. This also represents a weakness in controls over purchasing and budgetary compliance.
- ❑ ACH payments do not originate within the accounting system – instead they are coded as wire transfer transactions and then Treasury enters the data into an external bank supplied system to originate the ACH payment. Since reentry of the data makes it susceptible to change and/or data entry error, no controls are in place to ensure the disbursement data is the same as that recorded within the accounting system. Additionally, ACH functionality has only been established within the general fund bank account. Consequently, when disbursements originating in other funds are to be accomplished via ACH, the disbursement is made from the general fund with a corresponding movement of cash to reimburse the general fund. These reimbursements to the General fund are not tracked nor recorded within the accounting system. Since bank reconciliations were not performed during fiscal 2002, controls to ensure all amounts were reimbursed were lacking.
- ❑ The Office of Accounts and Control transmits an electronic file representing approved payments to Treasury. Treasury is then responsible for the actual check production. Upon completion of check printing, Treasury transmits a file to the banks representing checks issued that day. The file allows the bank to track outstanding checks and also serves as a control mechanism by allowing the bank to match a check presented for payment to an authorized issue list (“positive pay”). Treasury can modify the file transmitted to the bank as the “positive pay” file which represents a control weakness. We were informed that modifications were made on occasion to reflect disbursements that were wired rather than paid by check. Further, changes made to the positive pay file are not reflected in the accounting system which then

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

causes inconsistency between the manner in which a transaction was recorded and the actual payment.

Receipts

- ❑ Treasury approves receipt transactions within the RISAIL accounting system based upon verification of a deposit by the bank. Deposits in the bank with no corresponding receipt voucher/revenue transaction are tracked and periodically recorded as miscellaneous revenue. We found duplicate recordings of revenue during fiscal 2002 which indicated weaknesses in control over deposits and accounting documentation prior to approving cash receipts transactions.

Classification of expenditures/expenses

- ❑ Controls over the classification of functional expenditures at the fund level -- capital outlay, debt service, and intergovernmental expenditures and operating transfers -- were not reliable during fiscal 2002. Certain expenditure classifications are determined by natural account codes. Natural account codes were not consistently and appropriately used throughout the fiscal year. Other functional expenditure classifications are accumulated by coding assigned to a component of the general ledger. A portion of the coding within the system was lost and had to be recreated.

Accounting adjustments

- ❑ Accounting adjustments should be subject to review prior to posting in the accounting system. Treasury has access to RISAIL that allows both the initiation and approval of accounting entries. As more fully described, in finding 2002-11, this results from access roles that cannot be sufficiently customized to allow only the intended access. Treasury has both initiated and approved certain accounting entries to clear reconciling items as a result of the bank reconciliation process. All accounting entries should be reviewed by appropriate personnel within the Office of Accounts and Control prior to recording in the accounting system.

RECOMMENDATIONS

- 2002-1a Complete implementation of RISAIL to result in an integrated accounting system that fully meets the State's management and financial reporting needs.

- 2002-1b Realign transaction processing to accomplish accurate accounting of interfund transactions including amounts due to and from each fund.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

- | | |
|---------|---|
| 2002-1c | Strengthen controls over wire transfer transactions by defining and enforcing appropriate accounting documentation and authorization of cash disbursements by wire transfer. |
| 2002-1d | Implement ACH functionality within the RISAIL accounting system to reduce the volume of check disbursements and bank to bank wire transactions and also to improve controls over the current ACH process which requires duplicate data entry of disbursement information. |
| 2002-1e | Modify the “positive pay” file format so that it cannot be modified prior to transmission to the bank. |
| 2002-1f | Improve controls over approval of receipt transactions to prevent duplicate entry of revenue. |
| 2002-1g | Improve controls over the use of RISAIL natural accounts to classify transactions so that the system will yield reliable amounts for financial reporting purposes. |

Finding 2002-2

TIMELY BANK RECONCILIATIONS

Monthly bank reconciliations were not performed during fiscal year 2002. Reconciliation of bank and book cash balances as of June 30, 2002 was not completed until September 2003 - 15 months after fiscal year end. Timely bank reconciliations are an integral component of internal control over the recording of receipts and disbursements. Consequently, controls over receipts and disbursements were severely weakened during fiscal 2002.

As a result of the reconciliation of June 30 bank and book balances subsequent to fiscal year end, material audit adjustments were required to post unrecorded or incorrectly recorded transactions. Reconciliation of bank and book balances during the fiscal year would have identified these differences and allowed timely correction in the underlying accounting records.

The reconciliation of bank and book balances was significantly impacted by the implementation of the new RISAIL accounting system. The general ledger component of the new accounting system was not fully operational until the close of the fiscal year, consequently cash balances for each fund were not available until that time. Additionally, in prior fiscal years, bank reconciliations had been performed through use of a sub-system (AV-60) which was fed data from the statewide accounting system. The sub-system facilitated the matching of bank and book activity. With implementation of RISAIL, the sub-system could not automatically receive data from the new accounting system. Efforts were made to replicate the functionality of the old

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

reconciliation sub-system by extracting data from the RISAIL accounting system. Treasury personnel subsequently discovered that these efforts resulted in incomplete and erroneous data being reported by the reconciliation sub-system. This situation complicated and delayed the reconciliation process particularly for the general fund.

Treasury attempted to reconcile each general fund bank account balance (11 separate bank accounts) to its sub-system with the intent that the sub-system would then be reconciled to the combined general ledger balances. Because of the unreliability of the sub-system and the fact that transactions were not consistently tracked to the appropriate bank account, Treasury's reconciliation model for the general fund proved unworkable.

Reconciliation of general fund cash balances is particularly complex because of the volume of activity and the number of bank accounts. We also found that the reconciliation process is made much more difficult by the processing of certain types of transactions (mostly wire transfer transactions) which creates differences in either the amount, mode (wire, ACH or check), or timing of transactions between the book and bank. Additionally, no unique identifier follows the transaction to facilitate matching of book and bank transactions. Ultimately, this required extensive manual effort to match bank and book transactions for reconciliation purposes.

Further, during fiscal 2002, implementation of the new accounting system resulted in significant delays, on occasion, between the movement of cash between funds or payments to vendors and the recording of the transactions in the accounting system. Numerous instances also occurred where cash moved with no recording in the accounting system.

Ultimately, a combined reconciliation (all general fund bank balances reconciled directly to one combined general fund general ledger balance) had to be performed. An unreconciled variance of approximately \$344,000 continues to exist between general fund book and bank balances (book over bank) at June 30, 2002.

Delay in completing bank reconciliations has contributed significantly to the delay in completing the State's fiscal 2002 financial statements. Various actions are required to allow timely reconciliation of bank and book balances thereby restoring this essential control over receipts and disbursements. Should these issues not be addressed promptly, delays in completing bank reconciliations will continue to threaten timely completion of the State's annual financial statements.

A comprehensive plan must be developed and implemented by both the Office of the General Treasurer and the Office of Accounts and Control to address these issues. The plan should be divided into short-term objectives to address bank reconciliation issues for fiscal year 2003 and longer-term issues necessary to address the systemic issues that currently prevent timely reconciliation of bank and book cash balances. We believe the following issues should be addressed by this plan:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

Short-term objectives:

- ❑ Agree on a format for the fiscal 2003 bank reconciliations that provides for direct reconciliation of bank and book balances (no intermediary sub-system).
- ❑ Agree on the formatting of fiscal 2003 transaction data from the RISAIL accounting system to facilitate reconciliation of general fund cash balances.
- ❑ Agree on a time-frame to complete reconciliation of all General Treasurer bank balances. The plan should describe the commitment of resources necessary to meet the objective.

Longer-term objectives:

- ❑ Revise the processing of certain disbursement transactions to eliminate differences between bank and book activity.
- ❑ Include reference numbers on all wire transactions to facilitate matching to accounting system transactions.
- ❑ Modify the RISAIL accounting system to allow ACH transaction processing to both reduce the volume of manual wire transactions and also to align book and bank activity.
- ❑ Integrate RISAIL information into the General Treasurer cash management function to prevent processing of transactions that cannot be completed due to insufficient cash flow.
- ❑ Explore options geared to automating and streamlining the bank reconciliation process with the State's financial institutions.

RECOMMENDATIONS

- 2002-2a Perform timely reconciliation of bank and book cash balances.
- 2002-2b Develop a comprehensive plan to address the short-term and longer term issues which currently prevent timely reconciliation of bank and book balances. The plan should be developed jointly by the Office of the General Treasurer and the Office of Accounts and Control.

Finding 2002-3

ACCOUNTING CONTROLS OVER INVESTMENT TRANSACTIONS

Recording of investment transactions in the accounting system

Short-term investment of available cash balances within the various funds of the State are made by the Office of the General Treasurer (Treasury). Treasury records these transactions

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

within an independent investment system (SI50) which tracks purchases, sales, maturities, and investment income. In prior fiscal years, daily investment activity was transmitted by the SI 50 system for recording within the State accounting system. During fiscal 2002, due to the implementation of the new RISAIL accounting system, no investment activity was recorded within the State accounting system. All fiscal year 2002 investment activity was recorded in summary form subsequent to fiscal year end.

Investment purchases and sales represent a significant dollar volume of cash receipt and disbursement transactions. Such activity during fiscal 2002 approximated \$1.2 billion per month (all funds). Failure to record this activity on a timely basis significantly weakens controls over cash receipts and disbursements. Additionally, as described more fully in Finding 2002-2, accurate cash balances (as well as investments and investment income) cannot be reported by the accounting system when investment activity is not recorded during the fiscal year.

Investment activity should be recorded on a daily basis in the accounting system by modifying the existing SI50 investment system so that it can communicate directly to the RISAIL accounting system or through acquiring a module to the accounting system that allows direct and timely recording of investment activity.

Segregation of Duties

Treasury initiates investment purchases and sales, records the activity in its own investment system, wires funds to and from financial institutions to settle investment transactions, and receives confirmation of transactions. A small number of employees perform these functions at Treasury and opportunities for segregation of duties are limited within the investment function at Treasury. Combined with the fact that (1) none of the investment transactions were recorded within the State accounting system during fiscal 2002, and (2) bank reconciliations were not performed during the fiscal year; controls over this material component of cash receipts and disbursements were severely weakened.

Agency Funds – Statutory Deposits

The State holds certain investments for various entities which are required to pledge investments pursuant to the General Laws of the State. Such amounts are reported in the State's financial statements within Agency Funds – Statutory Deposits. Total assets at June 30, 2001 were \$68.2 million and \$84.3 million at June 30, 2002. The pledged investments are held by a third party custodian who provides reports to the Office of the General Treasurer. No recording of transactions relating to the statutory deposits is initiated by the Office of the General Treasurer or the Office of Accounts and Control. Transactions affecting the balances of pledged assets consist primarily of changes in pledged collateral and changes in the fair value of pledged investments. Without timely recording of investment transactions related to pledged assets, the State's financial statements could be materially misstated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

RECOMMENDATIONS

- | | |
|---------|--|
| 2002-3a | Record investment activity on a daily basis within the State accounting system. |
| 2002-3b | Improve control over investment transactions by segregating key functions. |
| 2002-3c | Record changes in the value of pledged investment held as statutory deposits on a monthly basis. |

Finding 2002-4

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

The State has included for the first time information regarding its investment in capital assets at June 30, 2002 as required by generally accepted accounting principles. An intensive effort was required to accumulate and/or estimate the historical cost of capital assets.

Accounting controls were not adequate during fiscal 2002 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Our testing indicated that many items were charged to capital asset natural accounts erroneously and conversely many items that should have been reflected as capital items were charged to operating accounts. Adequate control procedures were not in place to ensure that the acquisition of capital items was identified consistently within the RISAIL accounting system and then recorded at historical cost within the electronic file used by the State to accumulate capital asset data. Additionally, sale, disposal, or transfer of capital assets is not recorded within the accounting system and instead is tracked by a manual process that originates at the department or agency level. This weakness in accounting controls is largely attributable to (1) over reliance on manual accounting procedures to accumulate the data, (2) ineffective monitoring procedures, and (3) a general lack of awareness by accounting personnel in the departments and agencies regarding the importance of account classifications and the distinction between capital and operating items.

The State has not adopted a permanent accounting system to account for capital assets and related depreciation. Instead multiple databases were created to accumulate capital asset data as part of the effort to record these amounts for the first time on the financial statements. These databases do not adequately meet the State's capital assets accounting needs and should be replaced by a system or systems that more fully meet these needs and additionally allow for implementation of controls over access, tracking changes etc. Further, there is no integration functionality between the accounting system and the databases used to record capital asset data. All capital asset data must be separately recorded in the capital asset databases. Controls are inadequate to ensure all data is accurately captured in the capital asset databases.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

Physical controls over capital assets were inadequate during fiscal 2002. Departments and agencies at multiple locations did not consistently adhere to required procedures regarding (1) preparation and submission of documentation for the acquisition and disposal of capital assets, and (2) use of capital asset identification tags (bar codes). Additionally an insufficient number of physical inventories were performed of the State's departments and agencies to ensure that furniture and equipment capital assets were fairly presented on the State's financial statements at June 30, 2002.

No coordinated statewide plan now exists to collect capital asset data and maintain the data in a manner which will meet the various needs of the State – capital asset management and financial reporting. Various agencies play a role in the process including the State Properties Committee, the Division of Central Services and the Office of Accounts and Control within the Department of Administration, as well as the agency acquiring and using the capital asset.

A task force should be created to identify the information needs of State agencies regarding capital assets and to develop one system and related procedures to meet those needs. The charge should include eliminating the fragmented approach to information gathering that now exists and assigning responsibility for maintaining the database to eliminate duplication of effort among state agencies. We believe planning should begin immediately to ensure that the data accumulated as a result of this process becomes part of a statewide reporting system designed to meet the State's accounting and operational needs. Data now being gathered is recorded in multiple Access databases that may meet the need on a temporary basis but are not intended to be a complete reporting system. The objectives of the task force should include:

- a. Identify the users of capital asset data and their unique needs.
- b. Explore options for one reporting system to collect all capital asset data
- c. Identify the appropriate collection point for capital asset data (e.g. Accounts and Control, State Properties Committee, etc).
- d. Explore options for linking photos and electronic copies of deeds and other important documents to records within the database.
- e. Develop a unique asset identification number for each building and land parcel.
- f. Cross-reference each building to the related land parcel.
- g. Assign responsibility for maintenance of the database/reporting system.
- h. Define how acquisitions and sales of assets can be reconciled to accounting data reflected in the State accounting system.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

- i. Plan for the eventual interface of accounting system data to the capital asset database/reporting system.
- j. Identify the personnel and budgetary requirements to build the database and maintain the data on an ongoing basis.

Office of Management and Budget (OMB) Circular A-102 requires States to use, manage, and dispose of equipment acquired with federal funds in accordance with state laws and procedures. The State's weaknesses in accounting and physical controls over capital assets impacted its ability to identify equipment purchased with federal funds and to ensure compliance with its own procedures regarding the use, management and disposition of all equipment.

RECOMMENDATION

- 2002-4 Enhance systems and procedures necessary to provide adequate accounting and physical control over capital assets.

Finding 2002-5

CONTROL OVER LONG-TERM OBLIGATIONS

The State lacks adequate accounting controls to accumulate all long-term obligations for inclusion in the State's government-wide financial statements. Controls are also inadequate to ensure all required payments are made when due.

The State's debt service accounting system includes only information for certain general obligation bonds (current-interest bonds), representing approximately one-half of the total obligations reported in the government-wide financial statements. Obligations not recorded in the debt service accounting system include capital appreciation bonds, multi-modal rate bonds, lease obligations, certificates of participation, compensated absences, and arbitrage rebate liabilities. The debt service accounting system is incapable of accepting data for certain categories of long-term obligations and consequently these obligations are recorded on a variety of independent subsystems without centralized control.

A new subsidiary accounting system is required to capture all categories of long-term obligations, detail all debt service requirements to maturity, prompt payments on the required dates and calculation of accrued interest for financial reporting purposes. GASB Statement No. 34 also requires presentation of a category of net assets – capital assets net of related debt - on the government –wide financial statements. To meet this requirement each issuance of debt must be segregated into its capital and non-capital components. The State currently has no system to provide this information. Such information should be included in a comprehensive debt management accounting system.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statement Findings

This subsidiary accounting system should be capable of interfacing with the new statewide accounting system which was implemented during fiscal 2002. This will provide information necessary for financial reporting purposes, and generally improve control over the State's long-term obligations.

RECOMMENDATION

- 2002-5 Acquire a new subsidiary accounting system to account for all long-term general obligations of the State and improve controls over financial reporting and debt service payments.

Finding 2002-6

ENCUMBRANCES

Generally accepted accounting principles require presentation of encumbrances outstanding as a reservation of fund balance on the financial statements of governmental funds or disclosure of such amounts in the notes to the financial statements. The RISAIL accounting system did not accurately report the balance of encumbrances outstanding at June 30, 2002 and consequently these balances were omitted from the financial statements.

This omission was caused by failure to bring forward all existing encumbrance balances at inception of the new RISAIL accounting system. Additionally, payments during fiscal year 2002 were not consistently referenced to corresponding purchase order balances that were included within the accounting system causing these balances to be overstated.

RECOMMENDATION

- 2002-6 Ensure accurate data regarding outstanding encumbrances is provided by the RISAIL accounting system to allow preparation of financial statements in accordance with generally accepted accounting principles.

Finding 2002-7

LIABILITY FOR COMPENSATED ABSENCES

Recognition of the liability for compensated absences (earned vacation and sick time credits) is recorded in the government-wide financial statements as required by generally accepted accounting principles. These amounts are derived from accrued vacation and sick hours reported by the State's payroll accounting system. Not all agencies and departments of the State report earned and discharged vacation and sick hours for inclusion in the State payroll

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

accounting system. Approximately 1,500 employees are not reporting earned and discharged vacation and sick pay credits within the payroll accounting system. Accordingly, the liability for compensated absences included in the government-wide financial statements for fiscal 2002 is understated by an undetermined amount.

RECOMMENDATION

2002-7 Require all agencies and departments to report earned and discharged vacation and sick hours through the State's payroll accounting system or devise a means to estimate the compensated absence liability for employees not included in the State payroll accounting system.

Finding 2002-8

RECEIVABLES

Nearly all receivable balances are tracked by separate accounting systems maintained by the various departments and agencies of the State. Fiscal year-end balances are reported to the Office of Accounts and Control for inclusion in the RISAIL general ledger and ultimately the State's financial statements. The Judiciary department does not report all receivable balances to the Office of Accounts and Control and consequently such amounts are omitted from the financial statements. The effect on general fund revenues and receivables after appropriate allowance for uncollectible and unavailable amounts has not been determined.

RECOMMENDATION

2002-8 Ensure all receivables for all department and agencies of the State are reported to and included in the State financial statements.

Finding 2002-9

ESCROW LIABILITY BALANCES

Various escrow liability accounts have been established within the State's general fund to account for funds held on behalf of others and/or pending distribution. Child support collections and payroll clearing accounts are included in this category. Routine review and reconciliation of these escrow liability accounts is not performed to ensure that such amounts are accurately and appropriately reflected in the general ledger. We found that certain disbursements totaling approximately \$1 million were inappropriately charged to these accounts and many accounts had large unexplained debit balances rather than normally expected credit balances for escrow liability balances. Conversely, one account intended to represent amounts pending disbursement

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statement Findings

to a health care insurance provider for state employees showed a credit balance of \$30 million. Most of the accounts related to the receipt and disbursement of employee related expenses reported balances that indicated inappropriate recording of receipts and/or disbursements during the fiscal year. Overall, the payroll related escrow liability accounts netted to a reasonable credit balance.

All escrow liability balances should be analyzed and reconciled to supporting information. New accounts should be established to segregate current operating activity from old unexplained variances. Activity in each liability account should be reviewed on a current basis to ensure receipts and disbursements are recorded appropriately. Balances accumulated for future settlement of various payroll related costs should be segregated from biweekly payroll activity.

RECOMMENDATIONS

- 2002– 9a Analyze escrow liability balances and reconcile to supporting documentation. Activity in each liability account should be reviewed on a current basis to ensure receipts and disbursements are recorded appropriately.
- 2002– 9b Establish new accounts to segregate current activity from old variances relating to prior fiscal years.
- 2002– 9c Establish additional accounts for amounts accumulated for future settlement of certain payroll related costs to segregate these amounts from current amounts owed to providers.

Finding 2002-10

TAXATION – CONTROLS OVER ELECTRONIC FUNDS TRANSFER RECEIPTS

The majority of taxation collections (in dollars) are received electronically. Funds are deposited automatically in the State’s bank account and an electronic file is transmitted to the Division of Taxation by the State’s bank which contains abbreviated tax payment data (taxpayer identification number, payment amount, tax type, tax period). This electronic file is in an open text file format which allows, rather than restricts, manipulation of data prior to recording in the Division of Taxation’s computer systems.

Additionally, the Division of Taxation has not segregated certain duties regarding the processing of electronic funds transfer receipts. A single employee has the responsibility for accessing the electronic file, reconciling the electronic file information to the amount recorded in

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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the State's bank account, creating manual adjustments and ensuring that the information is uploaded properly to the taxation computer systems.

RECOMMENDATION

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|----------|---|
| 2002-10a | Segregate duties relative to the processing of electronic funds transfer taxation receipts. |
| 2002-10b | Request the electronic file be provided by the State's bank in a file format that prevents possible manipulation of tax payment data. |

Finding 2002-11

RISAIL PASSWORD ACCESS CONTROLS

We found that access to the RISAIL accounting system was not sufficiently restricted during fiscal 2002. RISAIL system access is controlled through unique passwords and assigned system access roles. These roles, which are assigned based on job function and responsibility level, permit or limit access to various system capabilities. Access is further controlled by permitting only viewing of data or the actual entry or changing of system information.

We found that various individuals within the Department of Administration had either (1) system access that was in excess of what was required for their respective duties, or (2) have access provided through multiple access roles that create rather than restrict the opportunity for perpetrating or concealing errors or irregularities. Unique access roles are assigned to both the BuySpeed and Oracle components of the RISAIL accounting system. In general, roles that allow users to initiate, process, and approve disbursement transactions, modify vendor information, or adjust accounting records must be adequately controlled and duties should be segregated.

A review of all users' system access is necessary to ensure access is appropriate based upon assigned functions. In some instances, new roles may need to be established to better tailor access to an individual's assigned functions. For example, certain Treasury employees have accounts payable supervisor access in order to approve receipts transactions, however, this access also allows entry and approval of other transactions as well.

RECOMMENDATION

- | | |
|---------|---|
| 2002-11 | Review the access of all RISAIL system users to ensure access is appropriate to their assigned functions and does not allow inappropriate access that results in controls weaknesses. |
|---------|---|

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2002-12

PASSWORD ACCESS CONTROLS OVER THE PAYROLL ACCOUNTING SYSTEM

Payroll data for the majority of State employees is entered on-line to the payroll accounting system at the department or agency level.

We reviewed the controls over data entry for the State payroll accounting system and found that established procedures now mandates the assignment of unique passwords for each user to control and restrict access to the system, however, the existing password control system does not record password information within the data files to identify individuals making specific file changes thereby providing a clear audit trail. System access controls need to be improved by utilizing the password to track all transactions initiated by an individual user.

RECOMMENDATION

2002-12 Capture and maintain the employee's unique password within the transaction file to specifically identify transactions by individual user.

Finding 2002-13

DISASTER RECOVERY PLAN

The Office of Library and Information Services (OLIS) does not have a formal written disaster recovery/business resumption plan for all computer applications utilizing the State Data Center located in Johnston, as well as its operations located at One Capitol Hill in Providence. Key computer applications utilizing the State Data Center include the State's centralized accounting, tax collection, employee payroll, and pension payroll systems. Such a plan should be designed to allow the continuation of essential data processing and support functions in the event existing data processing facilities are destroyed, impaired or unavailable. Without a formal plan, the State's ability to re-establish key computer applications in a timely manner may be compromised.

RECOMMENDATION

2002-13 Develop a formal written disaster recovery/business resumption plan for the State Data Center and operations at One Capitol Hill.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2002-14

FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION EFFICIENCY ACT (ISTEA) FUND

Controls are not adequate to ensure that Intermodal Surface Transportation Efficiency Act (ISTEA) Fund revenues and other financing sources are accurately and consistently identified and recorded to allow preparation of financial statements in accordance with generally accepted accounting principles.

The ISTEA Fund has been established as a special revenue fund to account for federal/state highway projects. Federal revenues, bond proceeds for highway projects, and amounts collected from the state gasoline tax are recorded in the fund.

During fiscal 2002, controls over amounts due from the federal government continued to require improvement. Amounts due from the federal government for the Highway Planning and Construction Program represent the federal share of program expenditures incurred pending federal reimbursement. These amounts include not only current projects but also substantial amounts relating to prior projects. Amounts due for prior projects are principally categorized by RIDOT as “earned but unbilled”. This means that a valid receivable exists but funds have not been drawn either because project modifications are pending federal approval or because RIDOT has chosen to use its allocation of federal funds for new projects instead. The balance of “earned but unbilled” that remains uncollected rolls forward from one fiscal year to another. Based on previous history, these amounts will not be collected in total within the next fiscal year. Therefore, an allowance must be established for financial reporting purposes to estimate the amount that is unavailable (the amount that will not be collected within one fiscal year after the balance sheet date.)

“Earned but unbilled” amounts (which totaled \$11 million at June 30, 2002) are not controlled within the state accounting system but instead are reported at fiscal year end by RIDOT to the Office of Accounts and Control. Of the \$11 million, \$6.6 million is estimated as likely to be collected within the next year, and \$4.4 million is considered unavailable.

The existence of substantial “earned but unbilled” amounts and the current process to account for these amounts weakens overall control over financial reporting for the ISTEA Fund. Federal funds should be drawn for all amounts due from the federal government as soon as all federal requirements have been met (e.g. federal project approval). Failure to collect these amounts due from the federal government for extended periods of time puts the State at a substantial disadvantage.

The ISTEA Fund also accounts for federal revenues and expenditures related to certain other federal programs. These programs include the Federal Transit Cluster, State and Community Highway Safety Cluster and other smaller programs. However, the amount of

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expenditures by federal funding source is either not identified or is incorrectly identified in the State accounting system (e.g., appropriation accounts are not linked to the correct Catalog of Federal Domestic Assistance (CFDA) number). As a result, amounts reported in the financial statements by federal program could be materially misstated.

Financial statements for the ISTEAFund are prepared with information included within the State’s accounting system and information provided by the Department of Transportation’s internal records and systems. Neither sources of information are complete on their own and extensive work is required each year to assemble and reconcile the various pieces of information needed to prepare the financial statements. Controls over financial reporting need to be improved since most of the account balances included in the June 30, 2002 financial statements required significant audit adjustments. For example payables were overstated by \$15.1 million and amounts due from the federal government were overstated by \$4.7 million. Amounts due from the federal government is manually compiled from a variety of balances which require extensive analysis. Amounts due from the federal government are also impacted by the distribution of allocated costs to specific project accounts – allocation of certain components (payroll and vehicles) of these costs was not current at June 30, 2002.

RIDOT has a new financial reporting system that has been in development for over four years. The system is intended to manage the federal state highway program including providing essential information necessary for financial reporting.

We understand that the department proposes to have all transactions originate in the RIDOT system: applicable data would then be electronically transferred to RISAIL. We believe this proposal should be discussed with the State Controller before implementation to ensure that appropriate controls will be in place over this significant category of receipts and expenditures. The Department should expeditiously address all remaining issues which prevent implementation of the new departmental accounting system. A comprehensive review should be performed of the new system to ensure that it adequately addresses all the issues which currently contribute to significant weaknesses in controls over financial reporting.

RECOMMENDATIONS

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|----------|--|
| 2002-14a | Collect all amounts due from the federal government in reimbursement of highway project expenditures as soon as all federal requirements have been met. |
| 2002-14b | Request the State Controller modify appropriation accounts used for federal expenditures within the State accounting system, so that each account correctly identifies the federal funding source, i.e., CFDA number. Discontinue linking an appropriation account to more than one CFDA number. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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2002-14c Resolve issues that delay implementation of the new RIDOT financial reporting system and implement the system to improve controls over financial reporting.

Finding 2002-15

FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 2002-58 (Section III – Federal Award Findings and Questioned Costs), the Department of Human Services' oversight of its fiscal agent designated to pay Medical Assistance program claims was not adequate to assure the reliability of data reported by the Medicaid Management Information System (MMIS). Financial monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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TABLE OF FINDINGS BY FEDERAL PROGRAM

<u>Program Title</u>	<u>CFDA Number</u>	<u>Applicable Findings</u>
Food Stamp Cluster:		
Food Stamps	10.551	02-19, 02-20
State Administrative Matching Grants for Food Stamp Program	10.561	02-16, 02-17, 02-18
Child Nutrition Cluster:		
School Breakfast Program	10.553	02-17, 02-21, 02-22
National School Lunch Program	10.555	02-17, 02-21, 02-22
Special Milk Program for Children	10.556	02-17, 02-21, 02-22
Summer Food Service Program for Children	10.559	02-17
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	02-17, 02-23
Public Works and Economic Development Cluster:		
Grants for Public Works and Economic Development Facilities	11.300	None Reported
Economic Adjustment Assistance	11.307	02-24, 02-25, 02-26
Mortgage Insurance – Homes	14.117	None Reported
Section 8 Project Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	02-27
Lower Income Housing Assistance Program – Section 8 Moderate Rehabilitation	14.856	None Reported
Community Development Block Grants / State’s Program	14.228	02-17, 02-28, 02-29, 02-30
Unemployment Insurance	17.225	02-16, 02-17, 02-31, 02-32, 02-33, 02-34, 02-35, 02-36
Airport Improvement Program	20.106	None Reported
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	02-17, 02-37
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	02-17
Federal Transit – Formula Grants	20.507	02-17
Veterans State Nursing Home Care	64.015	None Reported
Veterans Housing – Guaranteed and Insured Loans	64.114	None Reported
Capitalization Grants for State Revolving Funds	66.458	None Reported
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	None Reported
Federal Family Education Loans	84.032	02-39
Federal Work-Study Program	84.033	None Reported
Federal Perkins Loan Program – Federal Capital Contributions	84.038	None Reported

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

TABLE OF FINDINGS BY FEDERAL PROGRAM (continued)

<u>Program Title</u>	<u>CFDA Number</u>	<u>Applicable Findings</u>
Student Financial Assistance Cluster (continued):		
Federal Pell Grant Program	84.063	None Reported
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	None Reported
Nursing Student Loans	93.364	None Reported
Title I Grants to Local Educational Agencies	84.010	02-17, 02-38
Special Education Cluster:		
Special Education – Grants to States	84.027	02-17, 02-38
Special Education – Preschool Grants	84.173	02-17, 02-38
Federal Family Education Loans (Guaranty Agency)	84.032	None Reported
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	02-16, 02-17
Class Size Reduction	84.340	02-17, 02-38, 02-40
Temporary Assistance for Needy Families	93.558	02-17, 02-18, 02-20, 02-41
Child Support Enforcement	93.563	02-17, 02-42, 02-43
Low-Income Home Energy Assistance	93.568	02-17, 02-44, 02-45, 02-46
Child Care Cluster:		
Child Care and Development Block Grant	93.575	02-17, 02-47, 02-48, 02-49
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	02-17, 02-47, 02-48
Foster Care – Title IV-E	93.658	02-17, 02-50, 02-51
Social Services Block Grant	93.667	02-17, 02-18, 02-49, 02-52, 02-53
State Children’s Insurance Program	93.767	02-17, 02-54, 02-55, 02-56
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	02-17
State Survey and Certification of Health Care Providers and Suppliers	93.777	02-17
Medical Assistance Program	93.778	02-17, 02-18, 02-53, 02-56, 02-57, 02-58, 02-59, 02-60, 02-61, 02-62, 02-63, 02-64, 02-65
Disability Insurance/SSI Cluster:		
Social Security – Disability Insurance	96.001	02-17, 02-66
Research and Development Cluster	Various	None Reported

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2002-16

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2002-4 (Section II – Financial Statement Findings), accounting controls were not adequate during fiscal 2002 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Additionally, insufficient inventories were performed to ensure the completeness of furniture and equipment, computer systems and building improvements in the initial recording of capital assets acquired in previous fiscal years.

Because of the weaknesses in controls over capital assets, we were unable to test the State's compliance with the equipment management requirement. In most instances, individual departments or agencies vested with responsibility for administering federal programs also lacked controls to ensure compliance with these requirements.

Finding 2002-17

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

CASH MANAGEMENT

The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.

The State is required to draw cash for federal programs in accordance with the federal Cash Management Improvement Act (Act) and related regulations at 31 CFR Part 205. For most large federal programs, the State is required to follow the specific provisions of an agreement entered into by the State and the US Treasury pursuant to the Act and related regulations. In the event the State does not comply with the provisions of the Treasury/State agreement in drawing cash for federal programs, it must pay interest for the period the funds were on hand prior to disbursement. For federal programs not included in the agreement, the State is required to minimize the time elapsing between the transfer of funds from the US Treasury and their disbursement, generally considered to be no more than a three-day supply of cash on hand.

The State has developed web-based cash management screens as part of its accounting system to provide information enabling departments and agencies to draw federal funds in compliance with the Treasury/State agreement. Cash management screens are designed to calculate daily Federal drawdown amounts based on clearance patterns specified in the

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agreement, and expenditures processed through the State accounting system. We noted the following internal control weaknesses relating to the operation of the web-based cash management system:

- ❑ Web-based cash management screens were not available to department personnel for the entire fiscal year.
- ❑ Due to the implementation of the State's new accounting system not all expenditure transactions, including adjustments, were posted timely.
- ❑ Various federal accounts were linked to incorrect or invalid Catalog of Federal Domestic Assistance numbers, thus affecting the accuracy of cash drawdown screens.
- ❑ Cumulative federal expenditure and receipt balances were not available to department personnel for the entire fiscal year.

Each department is responsible for drawing federal funds for the programs it manages. Of the 18 programs we tested as major programs that are subject to the Treasury/State agreement, nine programs did not consistently adhere to the techniques specified in the agreement to draw federal cash. In most instances where the techniques specified in the agreement were not consistently followed, funds were generally drawn later than permitted.

Since the State does not have procedures to centrally administer or monitor compliance with federal cash management requirements, various internal control deficiencies relating to cash management were also noted at the department level. We noted that one major Federal program carried a red balance in excess of \$1 million for over four months. Conversely, one department processed duplicate Federal reimbursement requests totaling \$2.1 million during fiscal 2002.

We believe responsibility for drawing federal funds should be vested in the Office of the General Treasurer where compliance with cash management for federal programs should be integrated with other cash management objectives. In instances where funds are now drawn less frequently than permitted, compliance with the agreement will enhance the State's cash management. Further, overall compliance with the agreement will minimize or eliminate any State interest liability payable to the federal government.

RECOMMENDATION

2002-17a Implement a centralized monitoring system to ensure compliance with cash management requirements.

The State did not adequately document its calculation of Federal and State interest liabilities during fiscal year 2002. An interest liability exists when either the State utilizes its own funds for federal program purposes prior to Federal funds being transferred to a State account, or when Federal funds reside in a State account prior to being spent for Federal program purposes.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

Federal regulations require that the State calculate the Federal and State interest liabilities for each Federal assistance program included in the Treasury/State agreement, and maintain records supporting these interest calculations for audit purposes. Our review disclosed that, with the exception of the Unemployment Trust Fund and the Special Supplemental Nutrition Program for Women, Infants and Children program, no documentation supporting the interest calculations for the State's other Federal assistance programs was available. The State reported that neither a Federal or State interest liability existed for any other Federal assistance program; no additional documentation was retained supporting this conclusion. The State also did not calculate an interest liability on refunds exceeding \$10,000 as required by the Treasury/State agreement.

We also noted that the fiscal year 2002 Treasury/State agreement reflected an estimated check clearance pattern as the basis for drawing down payments to local education agencies when over 85% of disbursements to these recipients under three financial assistance programs are made via wire transfer. Federal regulations require that the State notify the Federal Department of the Treasury if a Federal assistance program undergoes operational changes that may affect clearance activity.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|--|
| 2002-17b | Strengthen procedures to ensure that all interest liability calculations are performed and documented as required by Federal regulations. |
| 2002-17c | Review the basis for requesting Federal funds (i.e., funding techniques) for applicable Federal assistance programs, and modify the Treasury/State agreement to more accurately match funding techniques to current practices. |

Finding 2002-18

VARIOUS DEPARTMENT OF HUMAN SERVICES PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

COST ALLOCATION RECONCILIATIONS

The Department of Human Services (DHS) maintains a cost allocation system that distributes personnel and operating expenditures in excess of \$125 million each year to various programs and activities administered by the Department. The cost allocation system, that is part of and operates pursuant to a federally approved cost allocation plan, is needed due to the

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

inability of the State's accounting system to fully meet the Department's needs for computing and reporting the federal share of costs for various federal programs.

All DHS operating expenditures within a designated series of accounts are assigned cost center numbers when processed through the State's accounting system. Likewise, DHS employees are also assigned cost center codes as processed in the State's payroll system. The Department utilizes these cost centers to accumulate expenditures attributable to specific activities, and to allocate costs to State and Federal programs based on approved methodologies.

The cost allocation system generates quarterly reports which detail all operating and personnel expenditures processed through the state accounting system (for a designated series of accounts). These cost allocation reports are sorted by cost center, and should mirror the transactions processed through the State accounting system that are recorded by account number and expenditure type. Since the State's implementation of its new accounting system (RISAIL) on July 1, 2001, the Department has not reconciled the cost allocation reports to expenditures recorded in the RISAIL accounting system. Due to implementation issues associated with the new state accounting system, expenditure data required for such a reconciliation (i.e., expenditure balances by account by quarter) was not available to the Department until near fiscal year end.

Electronic data processing controls should include methods and procedures to ensure the accuracy and completeness of data input for processing. Since the input data for the Department's quarterly cost allocation process are those transactions processed through the State's RISAIL accounting system, a reconciliation of expenditures recorded in both systems should be conducted to ensure data accuracy and completeness.

The results of the cost allocation process (costs accumulated by program and activity) are intended to be the base for determining the federal share of program costs reported to and reimbursed by the federal government. DHS utilizes the output of the cost allocation system to report administrative costs for some of its largest federal programs. The final step of the quarterly cost allocation process requires that each program's expenditures be adjusted within the State accounting system to reflect the results of the cost allocation process. During fiscal 2002, the Department did not compare the cost allocation results to program expenditure recorded within the State accounting system and initiate the required adjustments. Department personnel have indicated these reconciliations have resumed in fiscal 2003.

Federal financial reports should be supported by the accounting records from which the audited financial statements and the Schedule of Expenditures of Federal Awards are prepared. Therefore, federal financial reports must be reconciled quarterly to RISAIL, and variances must be adjusted in the underlying accounting records.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATIONS

- 2002-18a Conduct quarterly reconciliations of expenditures processed through and recorded in the RISAIL accounting system and cost allocation expenditure reports to ensure the accuracy and completeness of data used for allocation purposes.
- 2002-18b Reconcile federal financial reports, as supported by the quarterly cost allocation process, to State accounting records and initiate any required adjustments.

Finding 2002-19

FOOD STAMP CLUSTER:

Food Stamps - CFDA 10.551

Administered by: Department of Human Services (DHS)

ELECTRONIC BENEFIT TRANSFER RECONCILIATION

Federal regulations (7 CFR 274.12(k)) require that states using Electronic Benefit Transfer (EBT) must conduct a reconciliation of benefits posted to household accounts on the central computer (the EBT contractor's system) against benefits on the issuance authorization file (the State's issuance files). During state fiscal year 2002 the Department indicated that its eligibility system contractor was performing this reconciliation, however, Department personnel did not review these reconciliations to ensure that discrepancies were appropriately resolved. The Department initiated procedures in fiscal 2002 to reconcile benefits as authorized by its eligibility system to benefits transmitted and accepted by the EBT contractor, however, no documentation was retained supporting this comparison.

This regulation also requires a reconciliation of total funds entered into, exiting from, and remaining in the EBT system each day. The Department's reconciliation procedures in place during state fiscal year 2002 consisted of comparing daily totals for EBT authorizations, clearings and cumulative balances as applicable between three sources of information. Department personnel compare on a daily basis:

1. authorizations as obtained from the EBT contractor's on-line reports to issuances as reflected in the Account Management Agency (AMA) system, and increases to the beginning balance in the Automated Standard Application for Payment (ASAP) system,
2. clearings from the EBT contractor's on-line reports to clearings as indicated in the ASAP system, and

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3. a cumulative balance as computed from the EBT contractor's daily authorization and clearing totals to the ending balance reflected in the ASAP system.

Also, in June 2002 the Department began receiving daily settlement reports that detail the dates that clearings are settled. Settlement amounts per date are summarized and compared to clearings as reflected in the EBT contractor's on-line reports.

The Department believes these procedures meet the reconciliation requirements as contained in the Federal regulation cited above.

The Federal Department of Agriculture's Food and Nutrition Service issued a document entitled *EBT Reconciliation Guidance for State Agencies* on August 25, 1999. The purpose of the document is to more explicitly define the EBT reconciliation requirements at 7 CFR 274.12, and to provide States "best practices" for complying with these requirements. In our opinion the Department's procedures do not fully address all aspects of the reconciliation of total funds entered into, exiting from, and remaining in the system each day as outlined in the guidance.

The auditee disagrees with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: None

RECOMMENDATION

2002-19 Strengthen procedures to fully reconcile total funds entering into, exiting from and remaining in the EBT system each day.

Finding 2002-20

FOOD STAMPS - CFDA 10.551

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES - CFDA 93.558

Administered by: Department of Human Services (DHS)

CONTROLS OVER ELECTRONIC BENEFIT DELIVERY SYSTEM

Controls over the delivery of food stamps and Temporary Assistance to Needy Families (TANF) benefits are weakened because some individuals have access both to the Department's INRHODES eligibility system and Deluxe Data's Electronic Benefit Transfer (EBT) card personal identification number authorization system (known as the Deluxe system). Certain local office supervisory personnel can create cases and/or modify case information within the INRHODES system. These same individuals can generate an EBT card and establish a personal identification number. Neither the Department of Human Services (DHS) nor its contractor

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Deluxe Data has a complete list of individuals with access to the EBT card personal identification number system.

DHS personnel both generate the EBT card and assist the recipient to establish a personal identification number using an on-line system terminal and encoding machine. In order for recipients to establish their personal identification number, clerical or certain supervisory personnel from each local office log on to the Deluxe system by entering a two-digit user identification number and a four-digit confidential password. We were informed that to ensure security control over card issuances, only clerical personnel with limited access to the Department's INRHODES eligibility system have access to this function of the Deluxe system.

We requested a listing of the individuals with access to the Deluxe system from the Department's Operations Management section, the Field Services section and the EBT subcontractor. We were informed that during state fiscal year 2002 DHS had not obtained or developed a complete listing of personnel authorized to access the Deluxe system and the personal identification number encoding equipment.

However, we determined that in November 2002, Deluxe Data provided the Department a list of terminal identification numbers and the corresponding two-digit user identification numbers authorized for each terminal. DHS personnel then, utilizing the list, conducted on-site reviews to ascertain which Department employees had been assigned which user identification numbers; unmatched user numbers were deactivated from the Deluxe authorization system. In addition, DHS removed Deluxe access privileges for individuals that had incompatible roles in the INRHODES eligibility system. Department personnel informed us that as of February 2003 the majority of field offices had been reviewed and that all remaining sites will be completed by the end of fiscal year 2003.

System access controls should include maintaining a current listing of authorized users and periodically analyzing the responsibilities of authorized users to ensure proper segregation of duties. System access controls are critically important in the EBT function since other controls to detect unauthorized and inappropriate access to the system are limited.

Questioned Costs: None

RECOMMENDATION

2002-20 Segregate responsibilities such that no individual has access to both initiate or modify case data within the Department's INRHODES system and the ability to generate EBT cards and establish personal identification numbers.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2002-21

CHILD NUTRITION CLUSTER:

School Breakfast Program – CFDA 10.553

National School Lunch Program – CFDA 10.555

Special Milk Program for Children – CFDA 10.556

Administered by: Rhode Island Department of Education (RIDE)

USER ACCESS CONTROLS

RIDE implemented a new computer system during fiscal 2001 to administer the child nutrition programs. The Internet based system allows entry of data regarding the number and type of meals served, etc. at the sponsor and site level. We found that user access to the computer system was not adequately restricted and controlled as follows:

- ❑ At the sponsor level and site level, user ID's and passwords are not unique to specific individuals. The combination of a single ID and password can be used by more than one system user.
- ❑ Multiple employees at RIDE have access to each of the sponsor's user ID's and passwords. This access was given because of numerous system implementation issues.

Because of these situations, specific accountability for transactions recorded and processed by the system is lost. The system should capture sufficient information about all user actions, which would provide a management trail to support the ability to audit user activity. Specifically, each user should be assigned a unique user ID and password. Access to system information should be based upon individual responsibilities and functions and be controlled by unique user ID's and passwords.

We also found that the design of user access security should also be improved by implementing standard passwords security features such as:

- ❑ require passwords to be changed on a scheduled basis (e.g. 30, 60, 90 days);
- ❑ disable user ID's and accounts automatically after a predetermined period of inactivity (e.g. 45, 60, 90 days);
- ❑ disconnect after a maximum number of unsuccessful logon attempts and require notification to the system security administrator; and
- ❑ encrypt passwords and restrict obvious password combinations to prevent "brute force guessing".

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RIDE should enhance its system security features to ensure the integrity of the data reported and processed by the system and to protect the data from damage, alteration, wrongful disclosure, or fraudulent use. These controls are essential when the system, by design, is “open” to various public access channels.

Questioned Costs: None

RECOMMENDATION

2002-21 Enhance system security features by (1) assigning all users unique passwords, (2) defining and controlling access to system data through user ID’s and passwords, and (3) implementing standard password administration procedures.

Finding 2002-22

CHILD NUTRITION CLUSTER:

School Breakfast Program – CFDA 10.553

National School Lunch Program – CFDA 10.555

Special Milk Program for Children – CFDA 10.556

Administered by: Rhode Island Department of Education (RIDE)

REPORTING

RIDE implemented a new computer system during fiscal 2001 to administer the child nutrition programs. One intended function of the system is to meet the federal reporting requirements of the programs. During fiscal 2001, RIDE experienced various issues associated with either the design or implementation of the new system which resulted in weaknesses in the control procedures over the federal reporting.

Although the system was intended to provide data necessary to complete federal reports for the child nutrition programs, the system lacked the capability to fully meet this function. Cumulative data was not reported by the system and totals for the program as a whole (all sponsors and sites) was not provided. Because of the system limitations, alternate procedures, including manually summing the data, were employed. These manual procedures resulted in errors being made in some of the reported data on the federal reports. For example, approximately \$89,987 was understated as School Lunch and School Breakfast program total unliquidated obligations on the SF-269 report for the quarter ending June 30, 2002.

We found that the system did not correctly calculate meal reimbursement for the Severe Need component of the School Breakfast Program. RIDE recognized the problems during the fiscal year and made adjustments.

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We found that total expenditures reported on the State Accounting system exceeded expenditures reported on the federal reports by approximately \$103,754. RIDE does not reconcile the expenditures reported until the final closeout report is prepared.

We also found a sponsor overpayment of approximately \$1,369 and an overstatement of approximately 755 meals per the FNS 10 report for the period ending October 31, 2001 due to a programming error in the system. The system did not capture and report second adjustments correctly in various reports generated from the system.

RIDE is aware of the system design and implementation problems that are affecting data reported by the new accounting system and have retained a consultant to assist in resolving the systems related issues.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2002-22a | Improve controls over federal reporting by resolving the computer system design and implementation deficiencies. |
| 2002-22b | Reconcile the expenditures included on quarterly reports (SF-269) to amounts included in the State Accounting System. |

Finding 2002-23

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS AND CHILDREN – CFDA 10.557

Administered by: Department of Health (DOH)

SAFEGUARDING AND ACCOUNTING FOR UNISSUED FOOD INSTRUMENTS

The State administers the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) through a network of local subrecipient agencies. These subrecipient agencies issue food instruments (checks) to program participants.

The state Department of Health's WIC Office is responsible for safeguarding and accounting for unissued food instruments.

Prior to January 2002, the WIC office delivered blank check stock to subrecipient agencies and maintained a log of blank check serial numbers delivered to each agency. Beginning in January 2002, blank check stock was delivered directly by the check-printing

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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contractor to each local subrecipient agency. The WIC office continued to maintain the log of blank checks. The local agency was responsible for providing a copy of the packing slip to the WIC office to document the check serial numbers received by the agency.

We could not account for several series of blank check stock delivered to the local agencies because the WIC office had not received copies of all the packing slips. As a result, the WIC office was unable to properly safeguard and account for all unissued food instruments. The WIC office contacted the subrecipient agencies, and has now received the remaining documentation.

Prior to the beginning of our fieldwork, the WIC office cancelled the delivery service with the outside contractor, and assumed direct responsibility for the delivery of blank check stock.

Questioned Costs: None

RECOMMENDATION

2002-23 Maintain adequate documentation at the WIC office whenever significant changes are made to the delivery of blank check procedures.

Finding 2002-24

ECONOMIC ADJUSTMENT ASSISTANCE - CFDA 11.307
Administered by: Rhode Island Economic Development Corporation

REPORTING REQUIREMENT

The U.S. Department of Commerce, in accordance with OMB Circular A-133, requires the Corporation to report financial and other information using specified financial reports.

During our audit of compliance, we noted that the Corporation does not:

- Complete the *RLF Income and Expense Statement*, OMB No. 0610-0095, which is required to be completed annually; although, the Corporation does not file its audited financial statements which do not include the same level of detail as the *RLF Income and Expense Statement*, and
- Attach the *Annual RLF Plan Certification*, required under the *Semi-Annual Report for EDA-Funded RLF Grants* (the Semi-Annual RLF Report), Part V, Section E, even though the Corporation indicated within the Semi-Annual RLF Report that such certification was attached thereto.

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Also during our audit of compliance, we noted that the Corporation:

- Reported on the Semi-Annual RLF Report for Project No. 01-19-63002 the EDA funding source amount as the grantee funding source amount, and the grantee funding source amount as the EDA funding source amount, in Part III, Section A.
- Did not complete Part II, Sections A and B, required by the Semi-Annual RLF Report for each of the four projects administered by the Corporation.
- Indicated within Part V, Section D, of the Semi-Annual RLF Report required for each of the four projects administered by the Corporation that a program specific audit was performed even though a program specific audit or a Single Audit was not performed.
- Reported \$1,410,000 designated by the Corporation's Board of Directors which was not committed to specific borrowers as RLF dollars committed but not disbursed in the Semi-Annual RLF Report for Project No. 01-19-01349, Part III, Section D, for March 2002, and
- Reported amounts and the percentage required by Part V, Section C, RLF Income and Expenses, of the Semi-Annual RLF Report for each of its projects on a combined basis for all four projects, rather than on an individual basis as required by each Semi-Annual RLF Report.

Although the Corporation's Director of Finance and Administration performs an overview of each report prior to being filed by the Corporation, a person independent of the person preparing the reports does not perform a detailed review of the information included in the reports prior to filing, and does not review compliance requirements to determine whether all required reports have been prepared in accordance with such requirements.

Questioned Costs: None

RECOMMENDATION

2002-24 We recommend that a person independent of the person preparing the reports detail review each report, and compare the requirements of the U.S. Department of Commerce and OMB Circular A-133 to the reports prepared to determine whether all required reports have been prepared and reports prepared are completed in accordance with such requirements prior to being overviewed by the Corporation's Director of Finance and Administration.

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Finding 2002-25

ECONOMIC ADJUSTMENT ASSISTANCE - CFDA 11.307
Administered by: Rhode Island Economic Development Corporation

DAVIS BACON ACT – REQUIREMENT

The *Title IX Economic Adjustment Program Revolving Loan Fund Administrative Manual* (the Manual), Section III(D), requires that borrowers receiving RLF loan proceeds that finance, in whole or in part, construction activities comply with the Davis-Bacon Act. The Manual also requires the Corporation to “ensure...that...borrowers are aware of, and comply with...Davis-Bacon Act.”

The Corporation includes a provision within loan documents that requires borrowers to comply with the Davis-Bacon Act, when applicable. The Corporation permits borrowers, in accordance with its Approved RLF Plan, to finance, in whole or in part, construction activities. When borrowers are required to comply with the Davis-Bacon Act, OMB requires non-federal entities, such as the Corporation, to obtain certified weekly payrolls from contractors or subcontractors to ensure or monitor compliance with the Davis-Bacon Act. However, the Corporation does not have specific policies and procedures to obtain from borrowers, where applicable, weekly payrolls certified by the borrower’s contractors or subcontractors in order to comply with the requirement that the Corporation ensure that the borrower complies with the Davis-Bacon Act as required by the Manual.

Questioned Costs: None

RECOMMENDATION

2002-25 We recommend that the Corporation institute specific policies and procedures to obtain from borrowers, where applicable, weekly payrolls certified by each respective borrower’s contractors or subcontractors in order to comply with the requirements related to the Davis-Bacon Act as included in the Manual.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2002-26

ECONOMIC ADJUSTMENT ASSISTANCE - CFDA 11.307
Administered by: Rhode Island Economic Development Corporation

REPORTING REQUIREMENT

The U.S. Department of Commerce, in accordance with OMB Circular A-133, requires the Corporation to report financial and other information using specified financial reports. Also, other forms (for example, financial, performance, and special reports) might be prescribed by federal awarding agencies.

During our audit of compliance, we noted that the Corporation does not:

- Complete Form SF-269A, *Financial Status Report*, as required by the special award conditions contained within the *Financial Assistance Award*, Award No. 01-49-03933, signed and dated September 1999,
- Complete project performance reports required by the *U.S. Department of Commerce Economic Development Administration Standard Terms and Conditions* (Standard Terms and Conditions), Section C(I)(b), dated March 1999, and
- Complete Form SF-334, *Minority Business Enterprise/Women Business Enterprise Utilization Under Federal Grants, Cooperative Agreements, and Other Federal Financial Assistance*, as required by the Standard Terms and Conditions, Section C(I)(c).

A person independent of the person preparing the reports does not review compliance requirements to determine whether all required reports have been prepared in accordance with such requirements.

Questioned Costs: None

RECOMMENDATION

2002-26 We recommend that a person independent of the person preparing the reports compare the requirements of the U.S. Department of Commerce, OMB Circular A-133, and the Standard Terms and Conditions and all related agreements to the reports prepared to determine whether all required reports have been prepared.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2002-27

SECTION 8 NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION

- CFDA 14.182

Administered by: Rhode Island Housing and Mortgage Finance Corporation

REPORTING REQUIREMENT

The U.S. Department of Housing and Urban Development (HUD), in accordance with OMB Circular A-133, requires Rhode Island Housing and Mortgage Finance Company (Rhode Island Housing), in the performance of their eligibility procedures through the use of monitoring, to conduct an annual Management and Occupancy (M&O) review and issue their report in a timely manner for each development.

In performance of this eligibility requirement, HUD specifies that Rhode Island Housing must complete and issue their report within 30 calendar days of completing the M&O review. It was noted in 5 of the 13 files selected for testing that Rhode Island Housing did not issue their report within the required time period.

Additionally, HUD requires that the development respond to any findings noted on the M&O review with a corrective action plan (CAP) within 30 calendar days of receiving the report from Rhode Island Housing. It was noted in 6 of the 13 files selected that the development did not respond within the required time period. Rhode Island Housing did not place in operation a control procedure to prevent its potential noncompliance with this specific requirement (for example, Rhode Island Housing did not notify the development prior to the 30 day filing requirement of their possible upcoming delinquent status).

Questioned Costs: None

RECOMMENDATIONS

- 2002-27a We recommend that Rhode Island Housing designate a member of the Program's management to be responsible for and track the issuance of all M&O reporting.
- 2002-27b We recommend that the same member of the Program's management who will track Rhode Island Housing's timely issuance of the M&O report also be responsible to monitor the developments in their timely response with a CAP.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2002-28

COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM – CFDA 14.228
Administered by: Rhode Island Department of Administration

MATCHING

The Department did not monitor its compliance with the matching requirements of the Community Development Block Grant Program (CDBG). The Department may use up to \$100,000 of the federal grant for state administrative purposes. An additional two percent of the grant may be expended for administrative costs, provided such funds are matched from State resources on a one-to-one basis. In fiscal 2002, the Department expended \$191,242 for administrative costs.

Federal awards from several fiscal years were still available in fiscal 2002. The fiscal year grant award to which the administrative expenditures are charged ultimately affects the amount of required state matching expenditures. This amount was determined to be \$112,437 for fiscal 2002. The Department indicated that allowable State matching expenditures were made; however, no documentation was maintained to support the amount or nature of the expenditures used to match CDBG funds. Control procedures should be implemented to require calculation and documentation of eligible matching expenditures to ensure compliance with this requirement.

Questioned Costs: None

RECOMMENDATION

2002-28 Maintain documentation to support required State matching expenditures for administrative costs that exceed \$100,000.

Finding 2002-29

COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM – CFDA 14.228
Administered by: Rhode Island Department of Administration

QUESTIONED COST - PAYROLL COSTS

OMB Circular A-87 requires that the distribution of salary and fringe benefit costs to a program or activity be supported by personnel activity reports or equivalent documentation when employees work on multiple activities or cost objectives.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

We question certain salary and fringe benefit costs charged to the CDBG program as follows:

- ❑ Salary and fringe benefit costs for one employee were charged entirely to the CDBG program for the fiscal year; however, weekly time sheets prepared by the employee indicated that time spent on the CDBG program approximated 50 - 70% for the nine weeks tested. We estimate the amount overcharged for the entire fiscal year at approximately \$18,000 (30% of salary and fringe benefit costs).
- ❑ For a second employee who worked on multiple activities during the fiscal year, the Department transferred a portion of the employee's salary and fringe benefit costs to the state account based on time sheets. However, an error was made in the calculation, which resulted in some costs associated with non-CDBG hours being charged to the CDBG program. We estimate the amount of the overcharge to the CDBG program at approximately \$4,700.

Questioned Costs: \$22,700

RECOMMENDATION

2002-29 Allocate employees' salaries and fringe benefits to the appropriate activities based on completed weekly time sheets.

Finding 2002-30

COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM – CFDA 14.228
Administered by: Rhode Island Department of Administration

SUBRECIPIENT MONITORING

Office of Management and Budget Circular A-133 requires pass-through entities to (1) monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, (2) ensure that subrecipients expending \$300,000 or more in federal awards have met applicable audit requirements, (3) ensure that appropriate corrective action is taken on findings, and (4) require that subrecipients permit the pass-through entity and auditors access to records and financial statements to ensure compliance with the Circular.

We found that, during fiscal 2002, the Department did not fully perform certain aspects of its subrecipient monitoring procedures. Specifically, certain planned site visits of subrecipients to assess compliance with program requirements were not conducted and review of subrecipient audit reports was not performed on a timely basis. At the time of our audit, few of the fiscal 2001 audit reports had been reviewed. In addition, an outdated checklist was used to

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

review the audit reports. The checklist referred to terms and reports that are no longer used or required.

The Department needs to improve its monitoring procedures to ensure that subrecipients are using CDBG funds for authorized purposes in compliance with laws, regulations and the provisions of contract and grant agreements.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2002-30a | Improve subrecipient monitoring procedures by ensuring all required subrecipient site visits are conducted and by reviewing all subrecipient audit reports on a timely basis. |
| 2002-30b | Update the checklist used to review subrecipient audit reports to include the current terminology and reporting requirements of OMB Circular A-133. |

Finding 2002-31

UNEMPLOYMENT INSURANCE – CFDA 17.225
Administered by: Department of Labor and Training

ELIGIBILITY – JOB SERVICES REGISTRATION

Unemployment Insurance (UI) benefits are required to be paid in accordance with State law. UI benefit claimants are required by Rhode Island General Law 28-44-12 to demonstrate availability for work by registering with the DLT Job Services Division.

DLT operates a Benefit Accuracy Measurement Unit (BAM) that selects a sample of UI benefit payments and tests the payments for compliance with program regulations. The BAM selects 480 benefit payments per calendar year for testing. We found the work performed and test results of the BAM to be reliable.

The test results of the BAM indicated that .8% of the payments in its sample were made to claimants who had not registered with the Job Services Division as required during calendar year 2001. Test results for calendar year 2002 indicate that the rate of those that had not registered with the Job Services Division has increased to 2.27 %. The increase in the rate from 2001 to 2002 indicates that controls have weakened in preventing and detecting noncompliance with this required element of eligibility for UI benefits during calendar year 2002.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Questioned Costs: None

RECOMMENDATION

2002-31 Strengthen controls to ensure compliance with the job services registration eligibility requirement.

Finding 2002-32

UNEMPLOYMENT INSURANCE – CFDA 17.225
Administered by: Department of Labor and Training

QUESTIONED COST - PAYROLL COSTS

OMB Circular A-87 requires that the distribution of salary and fringe benefit costs to a program or activity be supported by personnel activity reports or equivalent documentation when employees work on multiple activities or cost objectives.

We question certain allocated salary and fringe benefit costs charged to the Unemployment Insurance program by the Office of the General Treasurer during the majority of fiscal 2002. The allocated costs relate to functions performed by the Office of the General Treasurer (e.g. bank account reconciliation, check replacement) which are necessary for the overall administration of the program. For most of the year costs allocated to the program were based on varying percentages of the total salary and fringe benefit costs for certain individuals employed within the Office of the General Treasurer. The percentage of each individual's total salary and fringe benefit cost was not supported by timesheets or other equivalent documentation. Approximately \$164,800 in payroll charges during fiscal 2002 were not supported by timesheets. The Office of the General Treasurer indicated that these allocations were based upon specific knowledge of each individual's duties including time spent on Unemployment Insurance program functions.

During the last four bi-weekly pay periods of fiscal 2002, the Office of the General treasurer did allocate its salary and fringe costs to the Unemployment Insurance program based upon employee timesheets in compliance with OMB Circular A-87.

Questioned Costs: \$164,800

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Finding 2002-33

UNEMPLOYMENT INSURANCE – CFDA 17.225
Administered by the Department of Labor and Training (DLT)

PROCUREMENT

The Department of Labor and Training does not have adequate controls to ensure that its purchases comply with State procurement laws and regulations. Federal regulations (29 CFR 97.36 - *Common Rule*) require States to procure property and services under a grant in accordance with the same policies and procedures it uses for procurements from non-Federal funds.

In general, State procurement laws and regulations require written authorization by the Division of Purchases for all procurements exceeding \$5,000 for construction and \$2,500 for all other purchases. This is accomplished by obtaining a purchase order from the Division of Purchases, which constitutes the entire agreement between the State and contractors/vendors. Subsequent alterations or variations of the terms of a purchase order are not valid unless submitted in writing and approved by the Division of Purchasing through issuance of a change order.

In reviewing procurement documentation, we noted various instances where the Department did not obtain the required approvals from the Division of Purchasing prior to ordering goods and services from vendors or exceeding existing purchase order amounts. The Department should implement and enforce enhanced control procedures to ensure all future purchases comply with State purchasing laws and regulations.

Questioned Costs: None

RECOMMENDATION

2002-33 Implement and enforce enhanced control procedures to ensure compliance with State purchasing laws and regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2002-34

UNEMPLOYMENT INSURANCE – CFDA 17.225
Administered by the Department of Labor and Training (DLT)

FEDERAL FINANCIAL REPORTING

The Department of Labor and training (DLT) lacks adequate controls to ensure the reliability of data reported on federal report form ETA 227 - *Overpayment Detection and Collection Activities*. This report is submitted on a quarterly basis to the U.S. Department of Labor and contains information regarding DLT's accomplishments in principal detection areas of unemployment insurance benefit payments control. We found that DLT is not reporting benefit overpayment receivable information properly. Federal instructions require that receivables be removed from the report after two years from the date the overpayment was established unless recovery is in progress. DLT has been removing receivables from the report only after approximately five years. Controls require improvement to ensure that information is properly reported in accordance with the instructions. This should include documented supervisory reviews and approval of the reports prior to submission to the federal government.

Questioned Costs: None

RECOMMENDATION

2002-34 Implement controls to ensure that ETA 227 report information is prepared in the manner prescribed by the federal government. Document supervisory reviews and approvals.

Finding 2002-35

UNEMPLOYMENT INSURANCE – CFDA 17.225
Administered by the Department of Labor and Training (DLT)

STATE CERTIFICATION OF EMPLOYER'S FEDERAL UNEMPLOYMENT TAX (FUTA) CREDITS

Controls should be enhanced to ensure the reliability of employer state unemployment tax information reported to the federal government. Employers are allowed a credit against their federal unemployment taxes (FUTA) if they file and pay their state unemployment taxes timely. States are required to annually certify for each employer the total amount of contributions required to be paid under State law for the calendar year and the dates and amounts of such payments (federal regulation 26CFR section 31.3302(a)-3)). The certification process begins

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when the State receives the Internal Revenue Service (IRS) computer tape identifying employers claiming credit. The State extracts the appropriate data from its tax records for each employer included on the IRS tape and submits this information to the federal government. The IRS uses this information to determine if the employers were entitled to the FUTA credits claimed on their IRS tax forms.

In reviewing this process, we noted some discrepancies between information recorded in the State's records and amounts reported and certified to the IRS for some employers. For example, in a few cases we noted that when the IRS requested data relating to a prior tax year, the State did not extract the required data from its tax records for these employers. Instead, the State inappropriately reported back the same data it received from the IRS. The State should strengthen controls to ensure that all required data is reported to the federal government in the manner specified by IRS document 6581 (*IRS Guide for the Computerized Certification of State FUTA Credits*).

Questioned Costs: None

RECOMMENDATION

2002-35 Improve controls to ensure that employer tax information is properly reported and certified to the federal government in accordance with specific IRS guidelines.

Finding 2002-36

UNEMPLOYMENT INSURANCE – CFDA 17.225
Administered by the Department of Labor and Training (DLT)

PERIOD OF AVAILABILITY OF FEDERAL FUNDS

The Department of Labor and Training does not have adequate controls to ensure compliance with the period of availability requirements for automation acquisitions made with unemployment insurance administrative grant funds. The ETA Handbook No. 336 requires automation funds to be obligated by the end of the third fiscal year with liquidation of the obligations within ninety days thereafter. We identified \$10,915 in automation expenditures charged to the 1999 unemployment insurance grant funds during fiscal 2002 that were not obligated and/or liquidated within the specified period of availability. The Department should strengthen controls to ensure that period of availability requirements are adhered to for charges to the unemployment insurance administrative grants.

Questioned Costs: \$10,915

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RECOMMENDATION

2002-36 Strengthen control procedures to ensure compliance with period of availability requirements for unemployment insurance administrative grants.

Finding 2002-37

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

CASH MANAGEMENT - DOUBLE BILLINGS TO THE FEDERAL HIGHWAY ADMINISTRATION

The Rhode Island Department of Transportation (RIDOT) bills the Federal Highway Administration (FHWA) for reimbursement of eligible program expenditures. We found that RIDOT billed the FHWA twice and, in two cases, three times for reimbursement of certain expenditures in fiscal 2002. In total, we discovered fifty duplicate billings totaling \$2,115,327 during fiscal 2002. RIDOT did identify one duplicate billing, but did no further testing or analysis to determine if this was a one-time error or a systemic problem that went undetected in the federal billing system. We extended our search for duplicate billings to fiscal 2003, and identified an additional eight billings to FHWA totaling \$248,827 which appeared to be duplicates. RIDOT has subsequently processed credits to the FHWA for the duplicate billings

We believe that RIDOT's billing procedures in fiscal 2002, which included the creation of multiple copies of invoices, resulted in the duplicate billings. When a document is processed, a copy is made and submitted to the federal finance office of RIDOT with the original document. An authorized agent signs the original document, which is forwarded with supporting documentation to the Office of Accounts and Control for payment. The copy remains in the federal finance office and is used to enter information into the manual purchase order accounting system at RIDOT. In order to speed reimbursement from FHWA, *another copy* was made in the financial management section of RIDOT to be used for billing FHWA. At times, billings were processed in both the federal finance office and the financial management office, using copies of the same documents.

RIDOT's system also allows several individuals within the federal finance office to enter documents into the billings system. The multiple copies of documents and individuals entering documents without established and written procedures have resulted in the duplicate billings.

Prior to fiscal 2002, a control procedure was in place to prevent duplicate billing to FHWA. A computer tape of paid invoices was compared to the federal billings to verify that vouchers were entered only once. The implementation of the state's new accounting system (RISAIL) in fiscal 2002 changed the numbering of documents from seven to ten digits. However,

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RIDOT has not updated its internal accounting system to be compatible with RISAIL. Since the two accounting systems are incompatible in the voucher/document numbering convention, comparisons are more difficult to accomplish. During fiscal 2002, RIDOT had not implemented new control procedures to prevent duplicate billings to FHWA.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|--|
| 2002-37a | Strengthen internal control over data entry to reduce the risk of duplicate billings. |
| 2002-37b | Reconcile the RIDOT internal accounting system to RISAIL and verify that payments through the state accounting system have been reimbursed only once by the Federal Highway Administration. |
| 2002-37c | Require that credits processed in the federal billing system have been authorized by department management or authorized agents. Currently staff personnel have the ability to process credits without authorization or oversight. |

Finding 2002-38

TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES – CFDA 84.010
SPECIAL EDUCATION CLUSTER:

Special Education – Grants to States – CFDA 84.027

Special Education – Preschool Grants – CFDA 84.173

CLASS SIZE REDUCTION – CFDA 84.340

Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT CASH MANAGEMENT

RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month.

The *Common Rule* {34 CFR 80.21(c) and 80.37(a)(4)} requires grantees (RIDE) to monitor drawdowns by their subrecipients to ensure that they conform substantially to the same standards of timing and amount as apply to the grantee. Those standards require minimizing the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by grantees and subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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For those subawards which are primarily used to reimburse personnel costs, we suggest that RIDE advance a prorated amount to the subrecipient on each payday similar to the procedures provided for in 31 CFR 205.10(a).

Questioned Costs: None

RECOMMENDATION

2002-38 Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a).

Finding 2002-39

FEDERAL FAMILY EDUCATION LOANS - CFDA 84.032
Administered by: University of Rhode Island

REPORTING REQUIREMENT

If a student ceases enrollment without performing an exit interview and has received a Federal Family Education (FFELP) loan, the financial aid administrator must confirm that the student has completed on-line counseling, or mail exit counseling materials to the borrower at his or her last known address. The materials must be mailed within 30 days after learning that the borrower has left school or failed to participate in an exit counseling session.

Upon review of the University's exit interview procedures for FFELP loans, we noted that 12 of the 25 students selected for testwork did not have a record of an exit interview being performed or being mailed.

Questioned Costs: None

RECOMMENDATION

2002-39 We recommend that the University strengthen its procedures to ensure that a signed exit interview form or confirmation of on-line counseling be obtained from all borrowers, to ensure compliance with federal requirements regarding exit interviews.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2002-40

CLASS SIZE REDUCTION – CFDA 84.340

Administered by: Department of Elementary and Secondary Education (RIDE)

LEVEL OF EFFORT

RIDE is entitled to receive its full allocation of Class Size Reduction program funds if the aggregate expenditures in the State for free public education in the preceding fiscal year is not less than 90% of such aggregate expenditures for the second preceding fiscal year (20 USC 7371). RIDE does not have procedures in place to determine if this requirement was fulfilled and consequently controls were not adequate to ensure compliance with this requirement.

We calculated the aggregate expenditure for the preceding years and found that the State was in compliance with this requirement.

The federal government discontinued this program subsequent to fiscal 2002 and, consequently we make no recommendation to improve controls over program operations.

Questioned costs: None

Finding 2002-41

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

Administered by: Department of Human Services (DHS)

INCOME ELIGIBILITY AND VERIFICATION SYSTEM

The Department of Human Services participates in the Income Eligibility and Verification System (IEVS) as required by Section 1137 of the Social Security Act as amended. Through this system, DHS coordinates data exchanges with other Federally assisted benefit programs and utilizes the income and benefit information to determine individuals' eligibility for assistance and the amount of assistance.

The Department of Human Services conducts data interfaces with the Internal Revenue Service, the Social Security Administration and the Department of Labor and Training (the State Wage Information Collection Agency) to verify information about recipients of Federally assisted programs, including the Temporary Assistance for Needy Families (TANF) program. Federal regulation (45 CFR 205.56) requires that the State agency review and compare the information obtained from data exchanges against information contained in recipients' case records to determine whether it affects the recipients' eligibility or the amount of assistance. The Department's INRHODES computer system receives the information from the data exchanges

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and automatically includes the data in the applicable case record. Caseworkers are then electronically prompted about the receipt of new data and are required to investigate and resolve any discrepancies.

The objective of our testing approach was to assess whether the Department was considering the information resulting from the required IEVS data matches in determining eligibility for TANF and the amounts of benefits. Specifically, we understand that case workers are prompted electronically through the Department's INRHODES computer system when new information resulting from the IEVS data matches is posted in the case record. Our testing involved randomly selecting 40 TANF cases from the first three quarters of the state fiscal year and selecting 20 TANF cases from the fourth quarter where IEVS data had been electronically posted to a case record and then assessing whether that data had been considered in the eligibility and benefit determination process. Our sample was split due to the Department's representation that procedures and controls had changed effective April 1, 2002.

The methodology for IEVS case selection for the sample of 40 TANF cases involved randomly generating 200 data matches from a file, provided by the Department's eligibility system contractor, of all interface matches during the first three quarters of the state fiscal year. Beginning with the first random SWICA match, we utilized the Department's INRHODES eligibility system to research each SWICA match to determine whether the household was TANF eligible for the month of the interface discrepancy. We selected the first 40 cases that were TANF eligible during the month of the interface discrepancy for testing. The methodology for IEVS case selection for the sample of 20 TANF cases involved randomly generating 50 data matches from a file, provided by the Department's eligibility system contractor, of TANF eligible interface matches for the fourth quarter of the state fiscal year. We selected the first 20 cases that were TANF eligible during the month of the interface discrepancy for testing.

We noted the following for the sample of 40 cases from the first three quarters of the state fiscal year:

- Five instances of discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, four discrepancies could have been easily resolved by the caseworker and would not appear to have impacted eligibility or the household's benefit level. One of the discrepancies appears to impact eligibility or the household's benefit level.

- Eight instances where discrepancies were "cleared" by the caseworker by electronically entering an action code (e.g. no discrepancy exists), however, no documentation or comments to the electronic case file were present supporting this determination. Based on our evaluation these discrepancies appeared to impact the household's eligibility or benefit level. Since the data match was "cleared", no modifications to the household's case record were initiated.

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We noted the following for the sample of 20 cases from the fourth quarter of the state fiscal year:

- ❑ Twelve instances of discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, eight discrepancies could have been easily resolved by the caseworker and would not appear to have impacted eligibility or the household's benefit level. Four of the discrepancies appear to impact eligibility or the household's benefit level.
- ❑ Two instances where discrepancies were "cleared" by the caseworker by electronically entering an action code (e.g. no discrepancy exists), however, no documentation or comments to the electronic case file were present supporting this determination. Based on our evaluation these discrepancies appeared to impact the household's eligibility or benefit level. Since the data match was "cleared", no modifications to the household's case record were initiated.

Failure to promptly investigate and resolve IEVS interface data weakens the Department's controls over the determination of eligibility and benefit levels for the TANF program. Management acknowledged that, due to various factors, IEVS interface discrepancies are not always resolved promptly.

Questioned Costs: None

RECOMMENDATIONS

- 2002-41a Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.
- 2002-41b Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or amount of benefit levels.

Finding 2002-42

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

CHILD SUPPORT COLLECTIONS AND DISTRIBUTIONS

CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system. This is

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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an important control over program receipts and disbursements that approximate \$69 million annually. Accountability for child support collections is also important because these collections affect awards from the federal government, which reduce the State share of program costs.

At June 30, 2002, the State accounting system reported approximately \$1,040,000 more than the amounts reported by the CSE computer system as undistributed collections. All collections and distributions are processed through the CSE computer system; however, because federal CSE reporting guidelines do not require the reporting of non IV-D collections and distributions these amounts are excluded from reports generated by the CSE computer system. Reports are not available from the system that includes all collections and distributions and routine reconciliations are not performed between the amounts reported by the two systems. The difference could not be explained at the time of our audit.

As previously reported in our audit reports for fiscal years 1992 through 2001, CSE should report all child support collections and distributions in its accounting system and reconcile these amounts with those recorded in the State accounting system. This would provide further assurances that these collections and distributions are properly controlled and reported.

In order to perform these reconciliations, modifications are necessary to the reports provided by the Department's computer system. Certain changes in programming were previously implemented; however, further programming changes may be required to ensure all receipts and disbursements processed by the computer system are included on summary reports produced by the system. Any remaining differences between receipts, disbursements and undistributed balances reported by the two accounting systems should be investigated and resolved on a timely basis.

Questioned costs: None

RECOMMENDATIONS

- | | |
|----------|--|
| 2002-42a | Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system. |
| 2002-42b | Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems. |

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Finding 2002-43

CHILD SUPPORT ENFORCEMENT – CFDA 93.563

Administered by: Department of Administration – Child Support Enforcement (CSE)

SECURING AND ENFORCING MEDICAL SUPPORT OBLIGATIONS

CSE is required by 45 CFR 303.31 to verify that the noncustodial parent has obtained health insurance coverage for minor children in response to a court order. If coverage is not obtained, CSE is required to enforce the medical support order, unless health insurance was not available to the noncustodial parent at a reasonable cost. CSE is also required to inform the state Medicaid agency whenever a new or modified medical support order is issued and medical coverage information is obtained. The state Medicaid agency receives notification of new or modified medical support orders only when such information is entered into the medical insurance panel.

We tested a random sample of 25 cases in which medical support had been ordered by the court, and it had been determined that health insurance was available to the noncustodial parent at a reasonable cost. In 8 of the 25 cases tested, we found that no information had been entered into the medical insurance panel of the CSE computerized INRHODES system. Additionally, no documentation existed to demonstrate that action had been taken during fiscal 2002 to enforce these 8 medical support orders. Consequently, medical coverage for the children included in these cases was provided by Medicaid since no other medical coverage information was available to the State Medicaid agency.

Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced. Controls should be enhanced to ensure that appropriate follow-up action is initiated to obtain specific medical coverage information from the absent parent and that the information is recorded within the computer system. When necessary, appropriate action should be taken by CSE to enforce the medical support orders.

Questioned costs: None

RECOMMENDATIONS

- | | |
|----------|--|
| 2002-43a | Enhance control procedures to ensure that medical coverage information is recorded within the CSE INRHODES computer system on a timely basis when medical support is ordered by the court. |
| 2002-43b | Initiate appropriate enforcement action for medical support orders. |

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Finding 2002-44

LOW-INCOME HOME ENERGY ASSISTANCE- CFDA 93.568

Administered by: Department of Administration – State Energy Office (SEO)

REPORTING

The State Energy Office is required to submit three annual federal reports for the LIHEAP program: the *SF-269A Financial Status Reports* (a report for regular block grant funds and a separate report for emergency contingency funds, etc.), the *LIHEAP Carryover and Reallotment Report*, and the *Annual Report on Households Assisted by LIHEAP*. In reviewing these reports for fiscal year 2002, we noted the following inaccuracies, incomplete information, and data not reported in accordance with report instructions:

- ❑ the State Energy Office did not prepare and submit the required *SF-269A Financial Status Reports*;
- ❑ the projected unobligated balance was overstated by \$356,489 on the *LIHEAP Carryover and Reallotment Report*. The report indicated that there was a carryforward amount, when there was none. Additionally, the report was incomplete because the carryover and reallotment amounts were not identified, leveraging funds were inappropriately included in the carryover limitation base, required explanations were not included and
- ❑ the *Annual Report on Households Assisted by LIHEAP* did not identify that certain Winter/Year Round Crisis and Weatherization data elements were estimated rather than based on actual data. Report instructions allow estimates to be used in preparing the initial report. However, if estimates are used, final LIHEAP household data is required to be submitted when identified. The State Energy Office did not submit final household data because it does not track the actual information required for the report.

Questioned Costs: None

RECOMMENDATIONS

- 2002-44a Develop control procedures to ensure that federal reports are accurate, complete, and prepared in accordance with report instructions.
- 2002-44b Ensure that all federal reports are submitted to the granting agency as required. Prepare and submit the necessary *SF-269A Financial Status Reports*.
- 2002-44c Submit a corrected *LIHEAP Carry Over and Reallotment Report*.

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2002-44d Develop a system for tracking all of the required Winter/Year Round Crisis and Weatherization data elements. Submit a revised *Annual Report on Households Assisted by LIHEAP* to identify the basis used in reporting each of the various data elements (actual vs. estimated).

Finding 2002-45

LOW-INCOME HOME ENERGY ASSISTANCE- CFDA 93.568

Administered by: Department of Administration – State Energy Office (SEO)

SUBRECIPIENT CASH MANAGEMENT

The State Energy Office lacks adequate procedures to ensure that payments to its LIHEAP program subrecipients are limited to their immediate cash needs, as required by federal regulations.

The State Energy Office uses various non-profit agencies to carry out LIHEAP program activities designed to assist low-income individuals with home energy costs.

These non-profit agencies submit weekly LIHEAP program funds reports to the State Energy Office. These reports identify the balance of program funds agencies have on hand each week. The State Energy Office uses these reports to monitor agency cash balances to determine if agencies require additional program funds.

Our review of the program funds reports indicates that the State Energy Office is not always sufficiently restricting subrecipient cash balances when determining the need for program fund distributions. We identified a few non-profit agencies which had excessive cash balances at various points during the year. For instance, one agency had from \$123,000 to \$274,000 in excess funds on fifteen occasions between November 2001 and March 2002. Another agency had excess funds from \$124,000 to \$447,100 on five occasions between December 2001 and March 2002.

In addition, one subrecipient did not submit the LIHEAP program funds reports on a weekly basis, as required by the State Energy Office. This agency had excess cash from \$346,555 to \$1,746,750 between November 21, 2001 to January 18, 2002. We believe the State Energy Office should have made more effort to enforce the subrecipient's compliance with its reporting requirement and limited the agency funding to its immediate cash needs.

The State Energy Office should strengthen its procedures to ensure that it distributes program funds in amounts designed to cover only the immediate cash needs of LIHEAP program subrecipients.

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Questioned Costs: None

RECOMMENDATION

- 2002-45 Restrict subrecipient funding to their immediate cash needs and ensure that LIHEAP program funds reports are properly submitted by subrecipients.

Finding 2002-46

LOW-INCOME HOME ENERGY ASSISTANCE- CFDA 93.568

Administered by: Department of Administration – State Energy Office (SEO)

SUSPENSION AND DEBARMENT

The State Energy Office utilizes various utility and fuel providers and contractors for the operation of the LIHEAP program. Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

During federal fiscal 2002, the State Energy Office did not finalize the two utility contracts until after the beginning of the fiscal year to which they pertained. In addition, the State Energy Office did not require providers of fuel and utility services or subrecipients to certify that the organization and its principals were not suspended or debarred from participating in the LIHEAP program.

Questioned Costs: None

RECOMMENDATIONS

- 2002-46a Finalize all provider contracts by the beginning of the fiscal year in which the services will be provided.
- 2002-46b Require all agreements with utility providers, fuel providers and subrecipients to include certifications that neither the entity nor its principals are suspended or debarred from participating in the LIHEAP program.

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Finding 2002-47

CHILD CARE CLUSTER:

Child Care and Development Block Grant - CFDA 93.575

Child Care Mandatory and Matching Funds of the Child Care and Development Fund –
CFDA 93.596

Administered by: Department of Human Services (DHS)

CHILD CARE CASE FILE DOCUMENTATION

The Department provides child care services to families participating in an approved employment plan of the State's Family Independence Program (FIP) and to children of low income families whose supporting parent or caretaker relative is employed and whose gross income is within established eligibility limits. Department personnel from the child care office or Family Independence Program offices accept applications and approve payment for child care services. Families seeking eligibility for the Child Care Assistance Program (CCAP) must submit a signed FIP request for services or CCAP application form, along with the documentation required to verify eligibility and the need for services. The Department's administrative rules require that the agency representative consider and verify the combined total of earned and unearned income, including child support, in determining eligibility.

We tested the case files of 45 children receiving child care services to determine whether the required eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. We noted the following issues concerning the child care eligibility determination process:

- ❑ Two instances where the required hardcopy documentation (e.g. application, parent provider / agreement, income documentation) could not be located.
- ❑ Six instances where the earned income amount (wages) utilized in the child care eligibility calculation differed from the hardcopy income documentation contained in the case file. Two of the six differences resulted in an incorrect income level which impacted the provider's payment and the parent's copayment.
- ❑ Three instances where the unearned income from child support, utilized in the child care eligibility calculation, differed from the data reflected in the eligibility system's Child Support module. One of the three differences resulted in an incorrect income level which impacted the provider's payment and the parent's copayment.

Since child care workers failed to comply with established procedures, provider payments and the required copayment amounts were incorrectly calculated in some instances.

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Questioned Costs: None

RECOMMENDATION

2002-47 Adhere to internal procedures requiring agency personnel obtain and utilize the appropriate documentation to update electronic case file records prior to approving child care eligibility and determining payment amounts.

Finding 2002-48

CHILD CARE CLUSTER:

Child Care and Development Block Grant - CFDA 93.575

Child Care Mandatory and Matching Funds of the Child Care and Development Fund –
CFDA 93.596

Administered by: Department of Human Services (DHS)

REPORTING – FEDERAL CASH TRANSACTIONS REPORT

The Federal payment management system (PMS), operated by the Division of Payment Management (DPM), serves as a fiscal intermediary between recipients of federal funds and the federal awarding agencies for cash management purposes. The PMS reporting system utilizes quarterly status reports that are furnished to recipients with active PMS accounts to monitor recipients' accountability for funds received through the PMS.

The Federal Cash Transactions Report (PMS 272-A), the most comprehensive of the quarterly reports, indicates award identification numbers and award authorizations, as well as prior cumulative disbursements reported against individual awards. Recipients use the PMS 272-A report to report cash disbursements back to the DPM.

Department personnel generally utilize the financial status report applicable to each specific Federal program as the primary source of expenditure data (i.e., net cumulative disbursements) required for completing the PMS 272-A.

We compared cumulative disbursement totals as reported on the PMS 272-A to expenditures reported on the Child Care and Development Fund ACF-696 Financial Report (ACF-696) and noted the following variances.

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<u>Quarter Ended</u>	<u>Variance</u>	
September 30, 2001	\$218,277	under reported 2001 Discretionary expenditures
December 31, 2001	\$179,513	under reported 2001 Discretionary expenditures
	\$175,448	under reported 2002 Discretionary expenditures
March 31, 2002	\$426,607	under reported 2001 Discretionary expenditures
	\$503,615	under reported 2002 Discretionary expenditures
June 30, 2002	\$854,888	under reported 2001 Discretionary expenditures
	\$1,442,022	under reported 2002 Discretionary expenditures
	\$1,466,029	under reported 2002 Matching expenditures

Department personnel informed us that, due to the implementation of a new State accounting system in state fiscal year 2002, the results of their cost allocation system were delayed. Due to these delays the Department was required to estimate cumulative disbursements for every PMS 272-A report except for the quarter ended March 31, 2002.

Questioned Costs: None

RECOMMENDATION

2002-48 Strengthen internal procedures to ensure that cumulative disbursement totals as reported on the quarterly Federal Cash Transaction Report are supported by appropriate documentation.

Finding 2002-49

CHILD CARE AND DEVELOPMENT BLOCK GRANT – 93.575
SOCIAL SERVICES BLOCK GRANT - CFDA 93.667
Administered by: Department of Human Services (DHS)

SUBRECIPIENT CASH MANAGEMENT

Federal regulations require DHS to provide its subrecipients with funds in amounts that are limited to their immediate cash needs.

The Department of Human Services (DHS) uses multiple non-profit agencies to carry out the program activities of the Social Services Block Grant, and various child care services aimed at improving the quality of child care under the Child Care and Development Block Grant.

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Addendum III, *Payments and Reports Schedule* of the Community Services Block Grant and Social Services Block Grant contracts stipulates that the first contract payment will be made upon issuance of required documentation. The second through eleventh monthly payments, generally one-twelfth of the contract, are made upon submission of a request for payment, subject to a quarterly report adjustment.

Monthly requests do not reflect any financial data, including contract expenditures to date. Therefore, the Department does not know on a monthly basis the subrecipient's cash on hand for the grants and its immediate cash needs. Contract Addendum III requires that entities submit to the Department on a quarterly basis a project fiscal report including funds received to date and total expended to date. Only then, on a quarterly basis, can the Department assess the subrecipient's cash position relative to a specific federal program. Department procedures require an entity to submit their quarterly financial report prior to receiving the second monthly payment in the following quarter. For example, a subrecipient's June 30 report, due July 15, must be submitted prior to the August payment. This affords the Department one of three quarterly opportunities to analyze an entity's cash position.

The Department's procedures are not effective in limiting subrecipient's cash on hand and requests for cash to their immediate needs. We noted the following exceptions:

- ❑ We tested 21 SSBG subrecipients and in six instances noted excess cash on hand based on the entities' quarterly financial report.
- ❑ Payment schedules for Child Care and Development Block Grant subrecipient vary by individual contract, however, generally contracts stipulate quarterly payments subject to quarterly report adjustment. We reviewed payments and expenditure reports relating to six subrecipients and noted two entities were paid in excess of their immediate cash needs.

The department needs to strengthen its subrecipient cash management procedures to more effectively monitor its subrecipient's cash position and limit payments to immediate cash needs.

Questioned Costs: None

RECOMMENDATION

2002-49 Strengthen subrecipient cash management procedures to provide reasonable assurance that subrecipient payments are limited to the entity's immediate cash needs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2002-50

FOSTER CARE – TITLE IV-E – CFDA 93.658

Administered by: Department of Children, Youth, and Families (DCYF)

ELIGIBILITY

DCYF can obtain federal funding for certain costs of keeping children in foster care such as room and board, day care and clothing allowances (known as maintenance costs). Federal participation is allowable for those cases that meet specific eligibility criteria, including the following:

- ❑ the foster family home or child-care institution in which the child resides must be fully licensed {42 USC 671 (a) (10) and 672 (c)}.
- ❑ If the removal was by judicial determination, the first court ruling that sanctions the removal of a child from the home of a specified relative must contain language to the effect that remaining at home would be contrary to the child's welfare {45 CFR section 1356.21(c)}.
- ❑ Within 60 days from the date of the removal from home, there must be a judicial determination as to whether reasonable efforts were made, or were not required, to prevent the removal {45 CFR 1356.21 (b) (1) and (k)}.
- ❑ If the removal was by a voluntary placement agreement, it must be followed within 180 days by a judicial determination to the effect that such placement is in the best interests of the child {42 USC 672 (e) and 45 CFR section 1356.30 (b)}.
- ❑ A judicial determination regarding reasonable efforts to finalize the permanency plan must be made within 12 months of the date on which the child is considered to have entered Foster Care and at least every 12 months thereafter {45 CFR 1356.21(b)(2)}.

The federal share of maintenance costs (exclusive of day care costs) totaled \$3,073,538 in fiscal year 2002. We selected a sample of payments made on behalf of 25 children from this universe totaling \$7,375 in order to determine if these cases met program eligibility requirements.

We found four cases that did not meet the eligibility requirements for federal funding. In one case, there was no evidence that the foster care provider was licensed. In another case, there was no evidence that there was a judicial determination 1) containing language to the effect that remaining at home would be contrary to the child's welfare, or 2) as to whether reasonable efforts were made, or were not required, to prevent removal. In one other case, there was no evidence there was a judicial determination regarding reasonable efforts to finalize the

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permanency plan. Finally, one case did not meet the eligibility requirements because there was no evidence of a judicial determination to the effect that the voluntary placement was in the best interests of the child. The federal share of these unallowable costs totaled \$1,715.

Questioned Costs: \$ 1,715

RECOMMENDATION

2002-50 Adjust federal reports to reimburse the federal government for the unallowable maintenance costs charged during fiscal year 2002.

Finding 2002-51

FOSTER CARE – TITLE IV-E – CFDA 93.658
Administered by: Department of Children, Youth, and Families (DCYF)

SUSPENSION AND DEBARMENT

Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

During fiscal year 2002, the Department of Children, Youth and Families contracted with certain child care institutions but did not require that these vendors certify that the organization and its principals are not suspended or debarred from participating in federal awards. This certification should be included in all contracts that are funded with Foster Care program funds.

Questioned Costs: None

RECOMMENDATION

2002-51 Include certifications regarding suspension and debarment in contracts with child care institutions participating in the Foster Care - Title IV-E program.

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Finding 2002-52

SOCIAL SERVICES BLOCK GRANT - CFDA 93.667
Administered by: Department of Human Services (DHS)

SUBRECIPIENT MONITORING

Office of Management and Budget Circular A-133 requires pass-through entities to (1) monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, (2) ensure that subrecipients expending \$300,000 or more in federal awards have met applicable audit requirements, (3) ensure that appropriate corrective action is taken on findings, and (4) require that subrecipients permit the pass-through entity and auditors access to records and financial statements to ensure compliance with the Circular.

The department utilizes multiple subrecipients to administer the Social Services Block Grant (SSBG) and other federally assisted programs. Awards range from under \$20,000 to in excess of \$700,000.

The department's current subrecipient monitoring procedures include review of audit reports for those subrecipients expending more than \$300,000 of federal awards (from all sources) and ensuring that appropriate corrective action is taken on applicable audit findings. We found that the Department's subrecipient monitoring procedures, particularly for entities expending less than \$300,000 in federal awards, may not be sufficiently comprehensive to ensure federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements. The department needs to strengthen its subrecipient monitoring procedures for the following reasons:

- ❑ Entities not subject to the audit requirements of OMB Circular A-133 but awarded in excess of \$25,000 must submit an "acceptable audited financial statement prepared by an independent auditor". This audit focuses only on the financial activity of the entity and provides no assurance on compliance with requirements applicable to federal programs. No other procedures are in place to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of the grant agreement.
- ❑ An OMB Circular A-133 single audit report may be submitted for a subrecipient but a particular program may not have been tested as a major program as part of the audit. Consequently, the Department may not have any specific assurance that federal funds for a particular program were expended in compliance with federal requirements.

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- One of the department's larger subrecipients continues to be chronically late in submitting the required OMB Circular A-133 audit reports. By contract, the audit must be submitted within six months of the entity's fiscal year end. The Department received the entity's fiscal year end June 30, 2000 audit report on August 7, 2001 (7 months past its due date), and the fiscal year ended June 30, 2001 audit report on July 17, 2002 (over 6 months past its due date). The department has not performed timely or substantive follow-up on findings included in the audit report to ensure prompt corrective action despite the fact that the audit reports are chronically late with repeat findings that date back to fiscal 1998.

Review of A-133 audit reports should be merely one tool used by the department as part of its overall subrecipient monitoring process. The department's current procedures could be enhanced by performing subrecipient site visits to review financial records such as, documentation supporting expenditure reports, employee timesheets as required by OMB's *Cost Principles for Non-Profit Organizations*, and the allocation of grant personnel costs. Site visits would also provide the opportunity to observe the overall fiscal operations of the entity.

The Department believes that enhancing its subrecipient monitoring procedures will require adding one additional person to this function.

Questioned Costs: None

RECOMMENDATIONS

- 2002-52a Perform alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements.

- 2002-52b Perform timely and substantive follow-up on subrecipient audit findings – particular emphasis is warranted when findings remain uncorrected for multiple reporting years.

Finding 2002-53

SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER HOMEMAKER SERVICE BILLINGS

Payments to homemaker service providers are processed through the State's MMIS for both Medicaid and non-Medicaid sources of funding. Approximately \$1.9 million was charged to the Social Services Block Grant program and \$14.1 million (state and federal share) was

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charged to the Medicaid program. We found that controls over these expenditures could be improved to ensure that (1) payments are only for authorized individuals, (2) amounts billed do not exceed the level and duration of service authorized, and (3) amounts are correctly allocated to the appropriate funding source based upon eligibility criteria for the respective programs.

Department personnel complete an HS-3 *Authorization of Homemaker / Home Health Aide Services Adult Day Care* for each client. The form indicates general client information, the funding source to be used when billing, as well as the authorization period and hours authorized. DHS forwards a copy of the HS-3 authorization form to the homemaker service providers, however, this form is not provided to the fiscal agent processing billings for payment. Consequently the fiscal agent cannot match the authorized amount or period of service to billed amounts.

For Medicaid eligible individuals, an electronic case record is established within the Department's INRHODES computer system. The case record indicates funding source code, hours authorized and authorization period for homemaker services. Although the INRHODES computer system electronically transmits certain information to the MMIS on a daily basis, this information is not transmitted. Case records have not been established for individuals receiving homemaker services under the SSBG program.

Vendors are responsible for billing under the proper funding code based upon information contained on the HS-3 *Authorization of Homemaker / Home Health Aide Services Adult Day Care*. Since information within the MMIS is incomplete regarding eligibility for all individuals receiving homemaker services, controls are not adequate to ensure that all payments for homemaker services are authorized and charged to the appropriate funding source. During fiscal 2002, the department processed an expenditure adjustment transferring approximately \$617,000 from the SSBG to Title XIX (Medical Assistance) to correct erroneous funding source codes indicated by the homemaker service vendors.

Questioned Costs: None

RECOMMENDATION

2002-53 Strengthen procedures to ensure that vendor billings for homemaker services are verified as to authorized recipient, funding source, authorization period and authorized hours prior to payment.

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Finding 2002-54

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767

Administered by: Department of Human Services (DHS)

ELIGIBILITY

The basic objective of the State Children's Health Insurance Program (SCHIP) as authorized by Title XXI of the Social Security Act is to initiate or expand health insurance programs for low-income, uninsured children. States are afforded flexibility in the implementation of programs to meet this objective. In Rhode Island, the State has obtained waivers from the federal government that allow reimbursement of medical insurance coverage provided to certain individuals previously under the Medicaid program at the enhanced SCHIP federal financial participation rate.

Eligibility for both the Medicaid and the SCHIP programs is determined through the Department's INRHODES computer system, however, specific SCHIP eligibility criteria has not been programmed into that system. Instead, all individuals first become Medicaid eligible. The Department's procedures to identify and claim amounts eligible under SCHIP consist primarily of disbursing capitation or fee-for-service payments initially as Medicaid eligible expenditures and then, using queries against the Medicaid Management Information System (MMIS), reclassifying certain amounts based on eligibility characteristics. The queries isolate individuals meeting the SCHIP eligibility criteria and then accumulate expenditures (both fee-for-service and capitation payments) for the defined time period.

The Department uses queries rather than programming its systems to identify SCHIP eligible individuals because of existing system design constraints, continual changes regarding eligibility for SCHIP, and federal limits on funding for the SCHIP program. Controls over eligibility could be improved by subjecting the results of the queries used to accumulate SCHIP eligible individuals and related program costs to a quality control process to ensure individuals meet program eligibility and allowable cost criteria.

The State, as outlined in its SCHIP State plan, has required that information about the existence of health insurance from other sources be considered in determining eligibility for SCHIP. This information may not be fully considered as intended in the SCHIP State Plan because of the manner in which eligibility is determined.

Medicaid eligibility criteria within the INRHODES computer system inquires about the existence of other health insurance coverage primarily for third party liability purposes -- the existence of other health insurance coverage is recorded for cost avoidance purposes but does not automatically deny eligibility. SCHIP eligibility criteria require a more thorough examination of the applicant's access to health insurance coverage at a certain cost and consideration of whether

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the applicant denied or canceled coverage within the recent period preceding application. While the application for SCHIP collects information related to other insurance, the INRHODES system is not programmed to fully consider these unique SCHIP eligibility characteristics. Individuals that may not be SCHIP eligible because of other insurance related issues would still be considered Medicaid eligible.

DHS structures its queries designed to accumulate costs for SCHIP eligible children by excluding those with verified existence of other medical coverage. This does not fully meet the eligibility criteria outlined in the State's SCHIP plan.

Further, the terms and conditions of the program that were applicable during fiscal 2002 included the provision that parents covered as part of the demonstration population be uninsured. In designing queries to accumulate costs to be charged to the SCHIP program, there was no evidence that this criterion was considered for demonstration parents. We found that 11 of 33 demonstration parents included in our sample had verified third party liability coverage (as recorded in the MMIS) during the month that a capitation payment was made. The Department believes it is unclear whether the revised terms and conditions applicable for fiscal 2002 were intended as a new requirement.

During fiscal 2002, certain SCHIP expenditures were erroneously claimed:

- ❑ One category of individuals claimed under SCHIP was not identified as eligible in the SCHIP State plan. Specifically, individuals previously receiving Temporary Assistance to Needy Families who continue to receive Medicaid benefits as they transition to work were claimed at the enhanced FFP rate under the SCHIP program rather than regular Medicaid (52.45% vs. 66.72%). Since this group is already covered under regular Medicaid and since no specific federal approval was obtained from the federal government to allow reimbursement of this group at the SCHIP enhanced federal financial participation rate, these amounts are questioned in the amount of \$212,988.
This amount was adjusted on the State's financial statements for fiscal 2002 however, no adjustment had been reflected on the federal program report at the time of our audit.
- ❑ An error was made in the query performed to identify SCHIP eligible program costs which resulted in an erroneous charge of \$10,352 (federal share) to the program.

The amounts questioned above are the federal share of expenditures claimed for the SCHIP program. Since these costs would remain eligible under the Medicaid program the net amount questioned between both the SCHIP and Medicaid programs would be the difference in the regular Medicaid FFP rate (53.7%) and the enhanced SCHIP FFP rate (67.7%).

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Questioned Costs: \$212,988 – SCHIP Program (net questioned costs after reflecting costs are eligible for Medicaid reimbursement is \$43,637)

\$ 10,352 - SCHIP Program (net questioned costs after reflecting costs are eligible for Medicaid reimbursement is \$2,214)

RECOMMENDATIONS

- 2002-54a Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure eligibility and allowable cost program criteria are met.
- 2002-54b Adjust federal reports for the amounts erroneously claimed as program costs.
- 2002-54c Implement procedures to fully consider the existence or availability of other insurance when determining eligibility for SCHIP.

Finding 2002-55

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767
Administered by: Department of Human Services (DHS)

COST RECOVERIES - PROGRAM PARTICIPANT COST SHARING COLLECTIONS

Some SCHIP eligible individuals participate in a managed care cost-sharing component of the State’s Medicaid program. The State pays a monthly capitation amount to a managed care provider and then seeks reimbursement from the individuals for their “co-pay” amount. “Co-pay” collections reduce federal program expenditures and claims.

The Department bills family units for applicable co-pay amounts based upon family income and other program criteria. Data is not currently available to apply collection of co-pay amounts to Medicaid (CFDA 93.778) or SCHIP (CFDA 93.767) based upon the program that was charged for the capitation amount. Instead all collection of co-pay amounts is applied to the Medicaid program.

Consequently, the federal share of program expenditures for the Medicaid program is understated and the federal share of SCHIP expenditures is overstated. The under/overstatement between the two programs is not offset because of the difference in federal financial participation rates (52.45% for Medicaid vs. 66.72% for SCHIP). Cost sharing collections in fiscal 2002

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totaled \$1.2 million, however, the Department cannot determine the amount that should be applied to each program.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned costs: None

RECOMMENDATION

2002-55 Implement procedures to allow crediting the appropriate federal program for the collection of co-pay amounts under the State's RItE Care Cost Share program.

Finding 2002-56

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778

Administered by: Department of Human Services (DHS)

CASH MANAGEMENT

During fiscal 2002, all SCHIP program expenditures were initially claimed as Medicaid program expenditures and then later adjusted and claimed as SCHIP expenditures. Accordingly, cash is first drawn at the Medicaid federal financial participation (FFP) rate and then, at a later time when SCHIP eligible expenditures are identified, an adjustment is processed to reduce Medicaid expenditures eligible for a cash draw and the full SCHIP FFP rate is drawn for the eligible SCHIP expenditures. Although the State is not over reimbursed in total, during a quarter, expenditures that will eventually be reimbursed through SCHIP are reimbursed through Medicaid.

As described in Finding 2002-54 the MMIS does not identify SCHIP expenditures at the time of disbursement. SCHIP expenditures are later identified by query. Since system changes to identify SCHIP expenditures at the time of payment are not being considered, the Department should estimate the SCHIP share of expenditures for purposes of drawing cash against the appropriate cash award and letter of credit for each program. Adjustments should be made once the actual share of SCHIP program costs is determined.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

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Questioned costs: None

RECOMMENDATION

2002-56 Estimate the federal share of eligible SCHIP program expenditures for the purposes of drawing cash against the appropriate cash award and letter of credit.

Finding 2002-57

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

TIMELY IDENTIFICATION OF CLAIMS PAID ON BEHALF OF INELIGIBLE INDIVIDUALS

DHS utilizes an integrated computer system (INRHODES) as the official database used to determine and track eligibility for Medicaid. Transactions affecting eligibility are transmitted daily from INRHODES to update the MMIS recipient subsystem. As designed, Medicaid eligibility data from INRHODES should be replicated in the MMIS. In a limited number of instances, differences occur between the two databases. These differences can be summarized into three categories:

- ❑ Cases active in INRHODES, but inactive in the MMIS;
- ❑ Cases active in the MMIS, but closed in INRHODES; and
- ❑ Other differences, such as personal data, recipient income, category codes, etc.

A monthly variance report identifying the differences between the two systems is generated by the MMIS, and forwarded to DHS for review. DHS is responsible for making the appropriate corrections to ensure the accuracy and reliability of the two systems. Variances occur in about 1,000 cases each month. DHS is now researching and making corrections on a relatively timely basis. However, when investigation of the case indicates that a case should have been considered ineligible, DHS is not quantifying, on a timely basis, the amount of claims paid on behalf of the ineligible individual.

For calendar 2001, 121 cases were deemed ineligible. Claims paid during the periods of ineligibility totaled \$19,129 as determined by DHS. Documentation was not available to support the investigation of claims paid on behalf of all ineligible cases. An additional 187 cases have

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been determined to be ineligible for calendar 2002, however, quantification of claims paid for these cases during the period of ineligibility has not been made.

DHS believes that these eligibility variances will continue to occur due to the design of both INRHODES and the MMIS and further, any solution to completely eliminate these variances would require substantial and costly redesign of either or both systems. Accordingly, DHS's investigation of eligibility variances must be performed timely to minimize the likelihood and effect of payments made on behalf of ineligible individuals. Additionally, a complete resolution of eligibility variances must include determination of claims paid for ineligible individuals. Documentation should be maintained to support the investigation of cases determined to be ineligible and any quantification of claims paid during the period of ineligibility.

Questioned Costs: \$19,129; federal share \$10,033

RECOMMENDATION

2002-57 Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.

Finding 2002-58

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

FISCAL AGENT OVERSIGHT

DHS is highly dependent on its fiscal agent's extensive and complex computer system (MMIS), which includes controls for processing payments on behalf of eligible Medicaid beneficiaries as well as controls over disbursing state and federal funds. Oversight of these operations by DHS is essential to ensure that the fiscal agent complies with program regulations, and controls are functioning as designed. This is critically important considering the authority delegated to and dollar value of disbursements processed by the fiscal agent.

We have recommended in prior audit reports that DHS improve its oversight by monitoring the internal control procedures and financial activities employed by the fiscal agent. Monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated. DHS may need additional resources to fully accomplish these objectives.

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We noted the following matters:

- *DHS should ensure that the fiscal agent has adequate internal control policies and procedures in place to pay claims in accordance with program regulations and to control cash disbursements made on behalf of the State.* The internal control structure through which the fiscal agent processes Medicaid claims is totally separate and distinct from the State’s accounting system and related control procedures used to disburse other state expenditures. We recommended previously that DHS or its fiscal agent obtain an annual examination of its internal control policies and procedures by independent certified public accountants attesting to the adequacy of the design and operation of key internal controls utilized by the fiscal agent. This type of examination is referred to as a “SAS 70” review. A “SAS 70” review of the MMIS is particularly important because (1) DHS has limited resources to perform effective monitoring of the fiscal agent, and (2) a claims processing quality control function is not in place, and (3) many program functions are fully delegated to the fiscal agent.

- *DHS has not developed procedures to effectively monitor the financial activities of the fiscal agent.* For example, DHS has not implemented sufficient procedures to verify MMIS financial data used to record program activity and prepare federal reports. Additionally, procedures are not in place to ensure all prescription drug rebates are billed and collected, provider accounts receivable balances are accurately reported, and third party liabilities have been identified and collected. Most importantly, the fiscal agent performs incompatible functions of billing, recording, and receiving drug rebates, third party liability collections, and provider refunds. DHS performs no oversight procedures to ensure receipt of all collections by its fiscal agent.

Questioned Costs: None

RECOMMENDATIONS

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|----------|--|
| 2002-58a | Obtain an annual examination (“SAS 70” review) performed by independent certified public accountants of the fiscal agent’s internal control policies and procedures. |
| 2002-58b | Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected. |

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Finding 2002-59

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

THIRD PARTY LIABILITY IDENTIFICATION

Federal regulation (42 CFR 433.138) requires the State to maintain an action plan for pursuing third party liability (TPL) claims. States must develop procedures for determining the legal liability of third parties to pay for Medicaid services and integrate these procedures within the MMIS. Medicaid must exhaust third party resources prior to payment. When a third party liability is established after payment, reimbursement should be sought.

Although DHS performs certain TPL related functions, the fiscal agent is primarily responsible for the TPL process, including verifying recipients' TPL information, maintaining the systems used to identify TPL-related claims, and collecting from insurance carriers.

TPL information originates from the Department's INRHODES computer system and is then electronically communicated to the MMIS. The fiscal agent must verify this TPL data before it becomes effective. When the TPL information is verified, the MMIS generates a third party billing for claims paid during the time period when other third party insurance was effective. If the insurance is verified at the time the claim is submitted, the MMIS has a cost avoidance mechanism in place to deny payment of the claim.

During fiscal 2002, recovery from third party insurers was not attempted for claims totaling \$1.3 million (federal share approximately \$677,000) because the time limit for submission of claims had expired. Claims totaling \$490,937 (federal share - \$257,496) were submitted for reimbursement but were subsequently denied mostly due to untimely filing.

DHS's inability to recover for TPL was caused mostly by failure to identify TPL information on a timely basis during fiscal 2002 and in prior years. DHS should seek to share data with other medical insurers to facilitate the identification of third party liability coverage. Electronic interfaces or sharing files to allow data matches could streamline the process and allow for more timely identification of other medical coverage.

Due to the amount of authority delegated to the fiscal agent with respect to TPL identification and collection, DHS should improve its monitoring of the fiscal agent's procedures, and all data (billings and collections) generated by those procedures.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

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Questioned Costs: \$934,496

RECOMMENDATIONS

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|----------|--|
| 2002-59a | Review existing procedures to ensure that third party liabilities are identified on a timely basis. |
| 2002-59b | Reimburse the federal government for its share of uncollected third party liability recoveries. |
| 2002-59c | Seek to share data electronically with other insurers to facilitate the identification of third party liability. |

Finding 2002-60

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER PROGRAM EXPENDITURES

Benefit Type Expenditures

Medical Assistance program expenditures, other than administrative costs, are primarily processed through the Medicaid Management Information System (MMIS). The MMIS is designed to provide the basic controls over eligibility, types of services allowed and payment rates as well as enhanced controls to prevent duplicate payments, identify unusual patterns of utilization of services, and identify and collect third party liabilities.

During fiscal 2002, program expenditures (federal and state share) in excess of \$50 million were processed by systems independent of the MMIS. These consist primarily of Home and Community Based Waiver services processed by the Department of Mental Health Retardation and Hospitals (MHRH) and transitional payments to community health centers.

Other independent systems have not been designed to contain all the control procedures of the MMIS. Further, the potential for duplicate payment of the same claim exists – a claim could be submitted and paid from both the MMIS and the independent accounting system. Processing all program expenditures through a unified system substantially enhances controls over programs administered by agencies outside the Department of Human Services. The Department of Human Services continues to move towards processing all Medicaid claims

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expenditures through the MMIS and has reduced the volume and dollar amount of expenditures processed independent of the MMIS from prior years.

During fiscal 2001, the Department of Children, Youth and Families began utilizing the MMIS in a limited manner to “process” claims. Disbursements to providers are still made independent of the MMIS. After payment, DCYF’s computer system sorts Medicaid eligible claims for transmission to the MMIS. The MMIS performs limited edits on the claims and records the claims information within its database. Because many of DCYF’s provider payments are allocated to multiple funding sources and other unique payment arrangements are utilized, the department believes it cannot use the MMIS to pay its providers. This current payment and claims processing structure enhances controls over eligibility and limits the potential for duplicate payment, however, all the enhanced control features of the MMIS are not applied to these claims.

Payment to all providers should be based on actual claims submitted and processed through the MMIS.

Rate Setting – State Operated Facilities

We found that there is no oversight of the rate setting process for state operated facilities (hospital and group homes) by DHS. There is review of the rate setting process for the Eleanor Slater Hospital (a state operated hospital) by the federal Medicare intermediary since the same rate is used to charge the Medicare program when patients qualify for coverage. While federal regulations are not specific as to rate setting for state operated facilities, the memorandum of understanding (MOU) between the Department of Human Services (State Medicaid Agency) and the Department of Mental Health, Retardation and Hospitals (operator of the hospital and group homes) should specify the process to be followed, documentation to be maintained and the approval process required.

Administrative Expenditures

Six separate departments of the State administer elements of the Medicaid cluster of programs. We noted inadequate controls to ensure compliance with program requirements for administrative expenditures incurred by departments other than the Department of Human Services. This occurs because there are no centralized controls in place, across departmental lines, to ensure that administrative expenditures comply with program requirements. While all administrative expenditures are disbursed through the State’s centralized accounting system, controls to ensure compliance with federal program requirements are employed at the department level. Each department designs its own procedures and controls to meet federal program requirements. Expenditures charged to the Medicaid program by other departments are not reviewed or approved by DHS -- the single state Medicaid agency.

The Department of Human Services enters into a memorandum of understanding (MOU) with each state department that administers aspects of the Medicaid program. The MOU details

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specific program services to be provided under the Medicaid program. We believe the portions of the MOU which concern administrative costs reimbursable under the Medicaid program should be enhanced by requiring annual budgets which (1) detail personnel costs to be reimbursed under the program and (2) describe the allocation methodology when less than 100% of an individual's effort is devoted to the program. These annual budgets should be provided to and reviewed by DHS as the single state Medicaid agency. Additionally, purchase of goods and services over \$25,000 which will be reimbursed with Medicaid administration funds should require approval of DHS prior to expenditure.

We found that Medicaid administrative costs applicable to the Department of Health were overstated by \$37,599 during fiscal 2002. The applicable account reflected 100% of the Medicaid administrative costs rather than the 50% federal share.

Questioned Costs: \$37,599 (federal share)

RECOMMENDATIONS

- | | |
|----------|--|
| 2002-60a | Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS. |
| 2002-60b | Implement oversight procedures for the determination of per-diem rates established for state operated facilities. |
| 2002-60c | Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments. |

Finding 2002-61

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

SUSPENSION AND DEBARMENT

DHS utilizes various service providers and contractors for the operation of the Medical Assistance Program. Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

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Revised provider agreements, which included required certifications that the organization and its principals are not suspended or debarred from participating in the Medical Assistance Program, were mailed to all providers in November 2000. During our testing of claims paid in fiscal 2002, we found that 17 out of 98 providers tested did not have updated provider agreements in place which contained the required suspension and debarment certifications.

The Department of Mental Health, Retardation and Hospitals contracted for Medicaid eligible services with a vendor that was paid \$168,641. We found that the contract with the vendor did not contain certifications that the vendor was not suspended or debarred from participating in the Medicaid program.

The Department of Human Services should ensure that all contracts for the provision of Medicaid eligible services contain required certifications concerning suspension and debarment including contracts entered into by other departments. These requirements should be included in the memoranda of understanding that the Department of Human Services has with each state department which participates in the Medicaid program.

Questioned Costs: None

RECOMMENDATION

2002-61 Review and strengthen procedures to ensure current agreements containing the required suspension and debarment certifications are in place for all providers.

Finding 2002-62

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

DRUG USE REVIEW PROGRAM

Federal regulation (42 CFR 456.712) requires the State to prepare and submit, on an annual basis, a report summarizing specific information regarding the agency's Drug Use Review Program. Examples of the types of information required include a description of the nature and scope of the prospective and retrospective drug review programs, a summary of the educational interventions used, and an outline of the objectives, scope, and goals of the drug use review and surveillance and utilization functions.

DHS has not submitted the required reports for fiscal years 1998, 1999, 2000 and 2001 as of June 30, 2002.

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Questioned Costs: None

RECOMMENDATION

2002-62 Prepare and submit the required Medicaid Drug Use Review Agency Report annually.

Finding 2002-63

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

OUTSTANDING PAYMENTS TO PROVIDERS

Federal regulation 42 CFR 433.40 requires the State to credit the Medical Assistance Program for provider payment checks which remain outstanding more than 180 days after issuance. DHS has a process to identify checks outstanding more than 180 days but did not credit the federal government for its share. At June 30, 2002, the total amount outstanding more than 180 days was \$6,372.

Questioned Costs: \$6,372 (federal share \$3,342)

RECOMMENDATION

2002-63 Reimburse the federal government for its share of checks outstanding for more than 180 days.

Finding 2002-64

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

DISPROPORTIONATE SHARE PAYMENTS

The Department amended its State Medicaid Plan to allow certain non-governmental hospitals providing mental health services to qualify for disproportionate share payments. Among other criteria, the plan defined eligible hospitals as meeting the criteria set forth in Section 1923(b) of the Social Security Act. The provisions of this section of the Act require that a hospital have a Medicaid inpatient utilization rate at least one standard deviation above the mean Medicaid inpatient utilization rate for hospitals receiving Medicaid payments in the State, or, the hospital's low-income utilization rate exceeds 25 percent.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Amounts reimbursed as disproportionate share payments to one hospital did not meet the criteria of Section 1923(b).

We also found that the Department of Children, Youth and Families did not have a written contract with one hospital. A written agreement with the hospital was also required by the State Plan for amounts to qualify as disproportionate share payments.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: \$2,700,000 (federal share - \$1,400,000)

RECOMMENDATION

2002-64 Adhere to provisions in the State Plan regarding disproportionate share hospital reimbursements to qualifying mental health services hospitals and seek federal approval of the plan.

Finding 2002-65

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING

Controls should be improved over the preparation of the quarterly reporting of Medicaid expenditures on the CMS-64 report. We found that the process to accumulate information needed to prepare the report is complex and requires extensive manual effort. Most of the information regarding claims paid is provided through the MMIS operated by the State's fiscal agent, however, other data must be derived from the State accounting system. Further, a complete reconciliation is not performed between amounts reported on the CMS-64 and Medicaid program expenditures reported in the State's accounting system.

The overall process could be streamlined by better aligning the account structure within the State's accounting system with the categories of expenditure data generated by the MMIS and required for preparation for the CMS-64. Better alignment of accounts and coding would facilitate preparation of the CMS-64 and as well as reconciliation of data reported by the fiscal agent which ultimately is recorded in the State's accounting system.

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We also found that the CMS-64 did not include information regarding the collection of health care related taxes as required by federal regulation. Additionally, drug rebates receivable were not correctly reported based upon detail drug rebate data maintained by the fiscal agent.

No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2002-65a | Reconcile Medicaid program expenditures reported on the CMS-64 with amount included in the State's accounting system. Implement a review process to ensure the consistent and accurate reporting of program expenditures. |
| 2002-65b | Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS. |
| 2002-65c | Include information relative to the collection of health care related taxes on the CMS-64. |
| 2002-65d | Ensure data reported on the CMS-64 regarding outstanding drug rebates is consistent with supporting records maintained by the fiscal agent. |

Finding 2002-66

DISABILITY INSURANCE / SSI CLUSTER:

Social Security – Disability Insurance – CFDA 96.001
Administered by: Department of Human Services

REPORTING

DHS did not have appropriate controls in place to provide reasonable assurance that reports submitted to the federal government (Social Security Administration) were complete and accurate. We found errors in both of the reports that it must submit as outlined below.

State Agency Report of Obligations for SSA Disability Programs

DHS must submit the *State Agency Report of Obligations for SSA Disability Programs* (4513 Report) to the Social Security Administration on a quarterly basis. This report shows disbursements, unliquidated obligations and total outstanding obligations by expenditure

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category. We found that disbursements for fiscal year 2002 were understated by \$411,389 (6.1% of total). This was caused by 1) changes in the state accounting system, and 2) DHS prepared the June 30, 2002 report before the State had closed its accounting records. DHS has since submitted revised reports to accurately reflect disbursements in fiscal 2002.

Time Report of Personnel Services

DHS is also required to submit the *Time Report of Personnel Services* (4514 Report) to the Social Security Administration on a quarterly basis. This report shows the number of hours devoted to program activities by each class of employee (e.g., medical consultants, hearing officers and clerical staff). We found that three of the four reports in fiscal 2002 overstated the total number of hours and total number of hours excluding overtime by between 910 and 1,298 hours (between 4% and 6% of total hours). This occurred because overtime hours were included twice in the totals. We brought this to DHS's attention and it subsequently submitted revised reports to accurately reflect total hours devoted to program activities.

Questioned Costs: None

RECOMMENDATION

2002-66 Implement controls to provide reasonable assurance that federal reports are complete and accurate.

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Finding 2002-1

Corrective Action:

2002-1a

Condition of State Financial Systems

The combined weight of the single audit findings point to need for complete overhaul of system capabilities and financial management procedures. The current RI-SAIL system is not what was envisioned as the “statewide integrated financial management system.” Only one component, the general ledger (G/L), of the Oracle financial suite is currently implemented. Almost all the state financial transactions are first processed thru the Buy Speed system. Buy Speed was originally procured to support purchasing and accounts payables. However, as implemented, most of the state’s financial transactions are processed through Buy Speed where the detailed transactions are stored and only summary totals are entered into the G/L for each affected account. Since Buy Speed is a procurement system, tax receipts are treated as contra expense items. System authorizations allow anyone with A/P authority to see and potentially change revenue items. Encumbrance data is not entered into the G/L today because of data integrity issues that are still being addressed by the Buy Speed vendor.

As a result little detailed data (primarily payroll) is available within the G/L for ‘drill down’ support in researching and answering common accounting questions. Common reporting capabilities within the Oracle Financial Suite are useless owing to lack of data. Most financial reporting occurs from an intranet application that must pull information from Buy Speed, and account balances from the G/L. These details do not always balance to the G/L and can change from one day to the next. Significant amounts of IT and controller’s time is spent in reconciling and trying to improve the integrity of the information. Basic questions of the budget office, such as how much revenue has the state received and how much have we spent require extensive work to answer.

The current system as configured is not capable of providing the kinds of security, automated reporting and automated controls the state requires of an integrated system. This system does not contain all the information required for proper financial management, and cannot be “fixed” in its present state. The results being achieved by the system today rely on an extensive set of manual procedures for controls and entry of basic accounting transactions. The resulting information is error prone, and posting of data often lags behind the occurrence of the event which the data represents.

Because of the condition of this system, the state cannot support any other major systems implementation requiring close interface to the financial system.

Corrective Action Plan - Findings Included in 2002 Single Audit Report

In addition the State has major requirements for a financial system that lay outside the audit findings:

1. The Budget office (and almost everyone else) desperately needs a system that has budget, encumbrances, actual expenditures, and all revenue receipts in a single integrated database for reporting as well as tracking cash.
2. Most agencies using federal funds have a need to capture their labor expenses in a manner that supports their needs to manage grants. Agencies have spent millions on developing and maintaining their own systems for performing this function with mixed results.

In order to move toward “an integrated accounting system that fully meets the state’s management and financial reporting needs,” we will have to go back and re-implement the Oracle Financial suite and undo all the interfaces into Buy Speed, retaining it only as a procurement system for the time being.

Plan to move forward

The steps necessary to develop a plan to comply with this recommendation are:

Select a consulting organization to:

1. Review and confirm or modify the original requirements for a system that “fully meets the state’s management and financial reporting needs” for the future, including definition of:
 - a. Goals to be achieved
 - b. Business requirements
 - c. Agencies involved
 - d. Business processes involved
 - e. Benefits of meeting the goals
2. Develop a plan, budget, and technical architecture required to complete the implementation of the system, including external and internal resources.

The scope of this engagement would include each of the Branches of State Government, the Treasurer’s Office, the Budget Office, the Controller’s office, and: all major state department and agencies. Estimated cost of this engagement would be \$100-200k.

The schedule would be:

1. Selection of Consultant by December 31, 2003.
2. Completion of engagement with presentation of final plan by April 30, 2004
3. Approval of a multi-year budget anticipated to be \$10-20 million.
4. Selection of a consulting and services organization to work with state resources in the implementation of the system by June 30, 2004.
5. Project start July 1, 2004.
6. See Attachment 1 for possible project phases

Corrective Action Plan - Findings Included in 2002 Single Audit Report

7. Project completion June 30, 2006

Governance Structure:

Because of the magnitude of the effort, the criticality to the state and the close interaction between the implementation of the integrated financial system and the efforts to address the other audit recommendations, an executive Financial Systems Steering Committee will be established to direct both efforts. This group would be in charge of providing direction and resources to the subordinate teams to accomplish the tasks assigned.

This Steering Committee would meet monthly

- to guide the assessment, planning and executing of the project to complete implementation of the RI-SAIL System,
- to review plans for compliance with the Audit findings and to monitor the progress of their implementation.

A RI-SAIL implementation project team and governance structure will be established when the consultant's report has been completed, reporting to the Financial Systems Steering Committee.

To complete implementation of all other audit recommendations a Single Audit Report 2002 - Working Group would be established reporting to the Financial Systems Steering Committee. The Working Group would also attend the monthly steering committee meeting.

The Working Group will develop a plan addressing each of the Audit findings, with the exception of completing implementation of RI-SAIL, with a cost and schedule to comply. The chair would submit a report each month containing:

- Specific accomplishments of the month
- Plans for the coming month
- Significant issues that affect the cost, schedule or outcomes of the project.
- Financial Summary

Outline of possible project phases required to "Complete implementation of the RI-SAIL to result in an integrated accounting system that fully meets the state's management and financial reporting needs."

Phase I

- Implement Oracle Accounts Receivable (A/R) module
- Input Tax Receipts directly into A/R – G/L
- Modify reporting and interfaces to refer to new data sources

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2002-1c

During fiscal year 2003 accounting procedures and processes related to wire transfers and interfund transfers were revised to implement this recommendation.

Anticipated completion date: June 30, 2003

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2002-1d

Implementation of this recommendation will be studied during FY 2004.

Anticipated completion date: June 30, 2004

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2002-1e

The Office of Accounts and Control will investigate possible modifications to the "positive pay" file format so that it cannot be modified prior to transmission to the bank.

Anticipated completion date: June 30, 2004

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2002-1f

The Office of the General Treasurer and the Office of Accounts and Control will work together to improve controls over the approval of receipt transactions to prevent the duplicate recording of receipt transactions.

Anticipated completion date: June 30, 2004

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Contact persons: Catherine King Avila,
Deputy General Treasurer for Administration
(401) 222-2287

Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2002-1g

The Office of Accounts and Control plans to reduce the number of natural accounts and improve their titles to reduce problems associated with current structure. Account titles will be revised by March 31, 2004. The current number of natural accounts will be reduced by 10%-15% by June 30, 2004 for use in fiscal year 2005.

Anticipated completion date: July 1, 2004

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2002-2

Corrective Action:

2002-2a

RISAIL is overly restrictive in terms of the reports available to Treasury. By the close of FY04 we expect to have the reconciliation issue resolved. Achieving this will require Accounts & Control to develop and provide timely reports which will enable Treasury to perform this function.

Anticipated completion date: June 30, 2004

Contact persons: Catherine King Avila,
Deputy General Treasurer for Administration
(401) 222-2287

Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

2002-2b

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Anticipated completion date: June 30, 2006

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2002-6

Corrective Action:

Encumbrance data for long term DOT purchase orders have been entered into RI SAIL. Therefore, this situation should not recur and encumbrances will be reported in the financial statements for FYE 6/30/03.

Anticipated completion date: June 30, 2003

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2002-7

Corrective Action:

State Controller will require all departments and agencies, which currently do not do so, to report earned and discharged vacation and sick hours through the State's payroll accounting system, or devise a means to annually estimate amounts for financial reporting. Reporting is planned to begin by July 2004.

Anticipated completion date: July 1, 2004

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2002-8

Corrective Action:

State Controller will require all departments and agencies, that currently do not do so, to report their accounts receivable and related activity for June 30, 2003 and thereafter.

Anticipated completion date: December 1, 2003

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2002-9

Corrective Action:

2002-9a

The State Controller will reorganize duties of the accounting staff to insure liability accounts are analyzed and reconciled on a regular basis.

Anticipated completion date: Reassignment/realignment of duties to be complete and analysis and reconciliation to begin by January 1, 2004.

2002-9b

New accounts to segregate current activity from old variances will be established as needed.

Anticipated completion date: January 1, 2004

2002-9c

Additional accounts to segregate accounts for amounts accumulated for future settlement of payroll related costs from current amounts owed to providers will be established as needed.

Anticipated completion date: January 1, 2004

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2002-10

Corrective Action:

2002-10a

The Electronic Funds Transfer section is comprised of 3 employees – a supervisor and 2 tax aide personnel. One of the tax aide personnel is responsible for reconciling the bank statements with the file totals. At the current time there are 4 different files that must be downloaded on a daily

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

basis: ACH Credit; ACH Debit; Portal and Charge Card. This same employee also verifies that the files that were transmitted the previous day match the number of transactions and totals relative to the records in each file for the ACH Credit and the ACH Debit files only. She also creates batches for any records that were not processed and must be manually entered through data entry for the ACH Credit and ACH Debit files only. She downloads the Portal file and the Charge Card file only. She does not download the ACH Credit file or the ACH Debit file since she is responsible for verifying the transmission of these files and creating the batches for manual entry of records that were not processed for these files. The other tax aide personnel is responsible for downloading the Portal and the Charge Card file. She is also responsible for verifying that the files that were transmitted the previous day match the number of transactions and totals relative to the records in each file for the Portal and Charge Card files only. She downloads the ACH Debit file only. She does not download the Portal file or the Credit Card file since she is responsible for verifying the transmission of these files and creating batches for manual entry of records that were not processed for these files. Another employee in processing who is not part of the EFT section is responsible for downloading the ACH Credit file. She is also responsible for transmitting the ACH Credit and the ACH Debit file. Another employee in processing who is not part of the EFT section is responsible for transmitting the PORTAL and the CHARGE CARD files. Another employee in processing who is not part of the EFT section is responsible for reconciling the monthly EFT totals to the voucher receipts for EFT. The Treasurer's Office verifies voucher totals to actual dollars deposited. The network administrator limits access to the text files on the network to the processing section only. Due to the limited personnel available in the EFT section, the segregation of duties has been accomplished to the best of our ability at this time.

2002-10b

The only file that is transmitted by the State's bank is the ACH Credit file. The records in this file are not always in the correct format and must be deleted from the file prior to processing for the file to transmit. The original file received from the bank retains these records and is not changed in any way. We do not know if receiving an encrypted file will allow for the deletion of bad records. We will need to look into this recommendation and discuss it with the bank. However, the receipt of an encrypted file may not resolve the issue of possible manipulation since the file will probably need to be changed to the text format for transmission to the mainframe computer.

Contact person: R. Gary Clark
(401) 222-3050

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Finding 2002-11

Corrective Action:

State Controller will review the access of all RI SAIL users to ensure access is appropriate to their assigned functions and does not allow inappropriate access.

Anticipated completion date: December 31, 2003

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2002-12

Corrective Action:

State Controller will request Office of Library and Information Services to implement in current payroll system.

Anticipated completion date: July 1, 2004

Contact person: Lawrence Franklin, Jr., State Controller
(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2002-13

Corrective Action:

The Office of Library and Information services is drafting an RFP for Computer Recovery Services. We anticipate publishing the RFP by the end of the calendar year and have a DR plan and procedures implemented by the end of June 2004.

Anticipated completion date: June 30, 2004

Contact person: Thomas Collins
(401) 222-4444

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Finding 2002-14

Corrective Action:

The State Accounting System (SAS) was never capable of handling the sophisticated grant tracking and multiple year funding and expenditure tracking that is needed to implement the Highway Program. Financial statements were prepared from a combination of reports from the SAS and the antiquated Highway Finance System running on the state mainframe. Because of this, the Department has had in development an internal accounting system based on Oracle Financials and Oracle Grants.

In fiscal year 2002, the State implemented the RISAIL system, which exacerbated the problem. The system was not set up to handle multiyear encumbrances. Simple construction purchase orders could not be entered but instead had to be created as blanket contracts with individual “releases” to expend funds. The system was unable to give us purchase order balances and the tracking of expenditures-to-contracts had to be tracked on internal systems.

The development of our internal system was hampered by a number of internal and external factors. Most significant was the job freeze that has affected all state agencies over the past two years. The Department has gone from an authorized FTE count of 864 to 812, which has further been reduced (because of freezes) to a filled FTE level of 778 positions. Staff shortages prevented staff to be assigned to data conversion and other tasks. The Department submitted a request to create an accounting position to be in charge of implementing the data conversion, but this request was continuously denied. At the same time, the Deputy Finance Director was assigned for two years as the Acting Director of the Governor’s Office of Highway Safety because that vacant position was frozen.

Partly as a result of this audit, the new position has been approved, and the Accountant, Dorothy Pasquale, CPA, formerly of DBR, has been recently hired to lead the implementation of the system from the financial end.

I am confident that the implementation of this system will allow us to better track the payables and the receivables. The preparation of the Financial Statements from the State Accounting System cannot produce accurate results. A system specifically designed to track the unique nature of the Federal Highway funding system is needed.

The earned but unbilled amount at end of fiscal year 2002 was \$10,990,443. The “earned but unbilled” amount reflects project expenditures that are eligible for federal reimbursement, but have not been authorized, and hence not billed.

Federal highway funding is fixed. The amount of funding allocated to each state is set by Congress in each reauthorization and is set for several years. Unlike other federal programs, determining federal eligibility does not “earn” the states additional funds.

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Each year, a spending plan is developed based on the Transportation Improvement Program. Funding is allocated for construction, design, enhancements, etc. A reserve for project modifications is also established. When projects exceed their budgets, the project modifications are submitted against the reserve. When the reserve is depleted, scheduled projects must be canceled. If no projects can be canceled, State funds can be used to meet the obligation, but by classifying the expenditure as EBUB, the state reserves the right to bill Federal Highway at a later time through a project modification.

The Earned but Unbilled amount represents the cumulative total of projects that exceeded their authorization, and expenditures were covered by state funds. It is the Department's goal to continue to reduce the Earned but Unbilled total. The following chart shows the Earned but Unbilled at the close of each fiscal year since Fiscal Year 1995:

FY 95	\$17.9 million
FY 96	\$13.7 million
FY 97	\$18.0 million
FY 98	\$18.6 million
FY 99	\$15.6 million
FY 00	\$12.8 million
FY 01	\$12.6 million
FY 02	\$10.9 million
FY 03	\$9.9 million*

* Unaudited

The Department will continue its efforts to reduce the cumulative Earned but Unbilled total without sacrificing the approved Transportation Improvement Program.

2002-14a

The Department has significantly reduced the amount of time from payment of a voucher to reimbursement from the federal government. This will be improved further with the implementation of the new financial management system. The new system will bill—in compliance with the Cash Management Improvement Act—automatically after a check is processed.

The Department has been reducing the cumulative earned but unbilled amount for the past seven fiscal years. We will continue our effort to reduce this amount without sacrificing the approved Transportation Improvement Program.

2002-14b

The department concurs and necessary changes have been submitted.

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

2002-14c

RIDOT has put in place the necessary personnel to insure that the new system will be implemented and be able to produce accurate and reliable financial data.

Contact person: Brian Peterson,
Associate Director for Financial Management
(401) 222-6590 ext. 4634

Finding 2002-15

Corrective Action:

See corrective action plan for Finding 2002-58.

Finding 2002-16

Corrective Action:

See corrective action plan for Finding 2002-4.

Finding 2002-17

Corrective Action:

2002-17a

The Department of Administration, in conjunction with the Office of the General Treasurer, will implement a centralized monitoring system to ensure compliance with cash management requirements.

2002-17b

All interest calculations will be properly calculated and documented in the future. Problems associated with implementation of new accounting system caused problems in FY 2002. Each year the annual interest report is completed by December 31st.

2002-17c

The State Controller will establish a more formal review and revision process for making needed amendments to the TSA. Each year a review of previous TSA is completed by May 31st.

Contact person: Lawrence Franklin, Jr., State Controller

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

(401) 222-6731
e-mail: larryf@gw.doa.state.ri.us

Finding 2002-18

Corrective Action:

With the implementation of the RISAIL, state accounting system, no financial statements were available throughout SFY 2002 to make reconciliation possible. Transaction output was available, however, this was not accurate as the State Controller's Office had back-posted transactions after our cost allocation reports were run. Thus, these reports did not include back-posted expenditures. DHS was aware of these problems and proceeded to file timely federal reports based on the data we had at the time; knowing we would have to make corrections when more accurate data became available. Financial statements became available in SFY 2003 and being that we were already into the new fiscal year, the September and December 2002 quarterly cost allocation reports were completed, federal reports filed, adjustments processed along with appropriate reconciliations to the state accounting system.

Currently, DHS is working with the Office of Library and Information Services (OLIS) to re-run all cost allocation reports for the entire 2002 fiscal year, which would capture the missing back-posted expenditures. DHS will adjust any federal reports where there may be discrepancies and is confident that expenditures will be reconciled accurately to the state accounting system along with appropriate reconciling adjustments. We have also requested an input report from OLIS for the December, 2002 quarter which will provide a reconciliation of the state accounting system to our cost allocation sub-system.

DHS would like to point out that the lack of accurate financial statements and the back-posting of expenditures is a state-wide issue for which DHS had no control over. Thus, this finding should be addressed perhaps on a state-wide level rather than on a Departmental level.

Contact person: Nancy Brien
(401) 462-6855

Finding 2002-19

Corrective Action:

On a daily basis DHS Office of Financial Management personnel track and reconcile funds entering, exiting and remaining in the EBT system. Authorizations, clearings, aging and various other transactions are taken from the E-Funds on-line reports and matched against federal Food Stamps activity on the AMA/ASAP system. A daily federal Food Stamps running balance (authorizations versus clearings) maintained on an Excel spreadsheet is reconciled daily with the ASAP Account Statement Inquiry screen.

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

In addition to the process above which reconciles E-Funds to AMA/ASAP on a daily basis, E-Funds is reconciled to the INRHODES System on a daily basis as well as a monthly basis. Commencing 6/13/02 clearings are further delineated by settlement date and reconciled on a daily basis.

The draft Audit Report for FY 2002 includes a recommendation to reconcile ASAP draws against net retailer credits. Net retailer credits are defined in the FNS EBT Guide as “the weekly file submitted by EBT processors to FNS’ Benefit Redemption System Branch (BRSB) which includes the daily total credits paid to individuals retailers.” FNS requires that a reconciliation of retailer credits be performed by the FNS Account Management Agent (AMA), which in this case is the Federal Reserve Bank (FRB) of Richmond. Only in instances where states draw funds based on issuance (RI draws in accordance with the “actual clearance” methodology specified in the CMIA) are states required to reconcile net retailer credits.

As described above DHS reconciles ASAP draws to clearings as well as clearings delineated by settlement date on a daily basis. It is the position of DHS that the current system of daily and monthly reconciliation fulfills all requirements and that any further reconciliations would be redundant.

Corrective action plan: Not needed.

Contact person: Kevin McCarthy
(401) 462-6871

Finding 2002-20

Corrective Action:

The Department presently segregates these two distinct responsibilities and has done so for quite some time because of a finding from the Auditor General for fiscal year 1999. Please note that the critical issue is not whether or not the staff member can enter data but whether or not the staff member can approve case eligibility results. Staff who can approve case eligibility results cannot issue an EBT card or establish a PIN. These staffs include Regional Managers, Chief Casework Supervisors, Casework Supervisors, Supervising Eligibility Technicians, Social Caseworkers and Eligibility Technicians. Staffs who cannot approve case eligibility results are authorized to issue an EBT card and establish a PIN. These are clerical staff and include Principal Clerks, Senior Clerks and Word Processing Typists.

We permit no staff in the Field Operations to confer User Authority to any clerical person to issue EBT cards and establish PIN’s. Only the designated staff person from Financial Management has that authority. Supervisory staff contacts this person when a new clerical staff person needs to be given this User Authority. Field Operations does not receive any list of staff with such authority. Financial Management maintains this Master List.

Corrective Action Plan -
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To insure that these distinct duties remain segregated, Financial Management will generate a list on a semi-annual basis of all staff authorized to issue an EBT card and establish a PIN. They will send this list to the Administrator of Field Operations who will review it to insure that no individual authorized to issue an EBT card and establish a PIN also has INRHODES User Authority to approve case eligibility results. Should any individual be found to have authority to perform both functions, his or her authority to issue an EBT card and establish a PIN will be terminated. The Administrator of Field Operations will sign the report attesting that it is accurate and return to Financial Management.

Anticipated completion date: Ongoing, every June 30 and December 31.

Contact Persons: Edward P. Sneesby
 (401) 462-2424

Ronald H. Gaskin
(401) 462-6856

Finding 2002-21

Corrective Action:

In order to adequately restrict and control access to Child Nutrition data in the SNACS application program, RIDE will take the following actions:

- 1) Require written account request forms for each individual that will be using the SNACS system, then assign a unique user ID and password to EACH individual.

SNACS V2 has been redesigned to assign and maintain individual user IDs and passwords. This action is complete. A user security procedure has been implemented that requires authorization forms to be completed by individual users and approved by a sponsor official. Once forms are returned, names are entered into SNACS by RIDE designated personnel. SNACS generates individual user IDs and passwords. The user IDs and passwords are printed out on individual sheets for each user and are put into sealed envelopes. The sealed envelopes contain individual user information and instructions on how to log onto SNACS V2. The individual sealed envelopes are mailed to each sponsor's designated person to be distributed. Users are required to sign and date a roster (roster provided by RIDE with names of all users receiving sealed envelopes for each sponsor), signifying that they received a sealed envelope.

- 2) Modify security in the WEB based application that will allow RIDE Nutrition staff access to all sponsors' information using their own user ID/password rather than a sponsor's user ID/password.

Corrective Action Plan - Findings Included in 2002 Single Audit Report

The RIDE Nutrition staff have access to SNACS and have been assigned individual user IDs and passwords that allow them to access individual sponsor's accounts via the WEB. All user IDs are tracked in SNACS. This provides an audit trail of anyone who logs on to an account.

- 3) Require ALL users (RIDE Nutrition staff and users in the field-sponsor staff) to change passwords on a 60-day basis.

The Security function for V2 prompts the users in the field to change their password initially, and it is programmed to prompt the users to change their passwords every 60-days. RIDE staff also are prompted to change their WEB password in 60 days. RIDE users access the LAN with a different password, and they are prompted every 60-days to change, effective July 30, 2003.

- 4) Disable (automatically) user accounts if not accessed within 120 days (for purpose of allowing staff in districts ample time over summer months).

Standard procedures to disable users that have not accessed their account within 120 days are being finalized. This procedure will be executed monthly by RIDE as part of Security maintenance of SNACS. Part of the procedure will be to disable user access. This will also provide information to RIDE as to which users are accessing the system and if follow-up should be conducted to inquire if users should remain active. This procedure is expected to be finalized by October 31, 2003.

- 5) Disconnect user if unable to enter correct user ID/password within 3 attempts.

SNACS V2 will automatically "lock out" users for failing to successfully login onto V2. Once "locked out," a message is displayed, the users must contact RIDE (Office of Finance representative) to have their passwords reset. After passwords are reset, the Users will be prompted to change their password.

- 6) Restrict obvious password combinations.

The password schema has been implemented. The minimum number of letters and/or numbers (alphanumeric) is 8 with a maximum of 12. No spaces are allowed between characters. The new password cannot be their old password. Passwords can be changed as frequently as the user wants. Users are instructed not to share their passwords with anyone and are instructed that by doing so they would be in violation of the Security Procedures that they agreed to upon signing the User Privileges Form. Users are also told to change their password if they feel it has been "compromised."

- 7) Capture sufficient information about user actions to provide a management audit trail, RIDE will add 4 fields, 1) date_created, 2) created_by, 3) date_last_updated, and 4) last_updated_by to several key tables in the system. These fields will then be updated each time a record is created or modified.

Corrective Action Plan - Findings Included in 2002 Single Audit Report

year cycle and the start-up of a new Federal fiscal year has been experienced. Anticipated completion time is during State FY-2004, if work continues and delays are not encountered.

3) The ability to handle sponsors in multiple programs within school lunch.

V2 can separate and track sponsors in multiple programs. The redesign of the database provides additional functionality to accommodate sponsors (using their same sponsor number and site number, if applicable). Reports are in the development stage to query sponsors in multiple programs to streamline the program application renewal process, to track Federal reimbursement funds by sponsor, and to aid in requesting subrecipient audit (annual requirement) information. Anticipated time to complete this item with the needed output is during State FY-2004, if work continues and delays are not encountered.

4) An accurate Severe Need Calculation.

V2 can recognize individual sites for severe need calculation and perform recalculations for adjusted claims. This is undergoing testing and will not be completely tested until Federal FY-2003 is closed out and a complete Federal fiscal year cycle has been experienced. This will allow for year-end claim adjustments to be received and recalculated. Anticipated completion time is during State FY-2004, if work continues and delays are not encountered.

5) The modifications to existing screens and additional screens where needed, (e.g., more data on claim screen for approval process such as number of applications, adult breakfasts served for severe need schools, and severe need breakfast costs).

V2 has additional information displayed on the LAN screen to help in approving monthly claims. This is more efficient than being required to print a report to check the number of eligibility applications, and severe need details such as the number of adult breakfasts and severe need breakfast costs.

6) The modifications to existing reports and additional reports where needed, (e.g., cumulative reports).

The existing reports are still being modified to provide the needed monthly and cumulative reimbursement amounts and meal data for reporting requirements, program account reconciliation, and data requests. Anticipated completion time is during State FY-2004, if work continues and delays are not encountered.

7) New reports will be designed specifically for reconciling Federal financial reports with the State's accounting system.

The series of new reports are anticipated to be completed during State FY-2003, if works continues and delays are not encountered.

Corrective Action Plan - Findings Included in 2002 Single Audit Report

The 2002 Recommendation implementation has begun but is not complete and fully useable. A series of reports are vital to ensure that sponsors' reimbursements (based on the actual meal counts collected via the web) are calculated accurately and paid correctly, that the nutrition program (Lunch, breakfast, and milk) amounts earned are appropriately reimbursed, that the information displayed on reports (meal data or money reports) is based on accurate data in the proper meal type categories, and that state and federal reconciliation reports (for drawdown requests, SF-269 Quarterly Reports, RI-Sail payments, and the closeout process) are useful. The report module cannot be completed until the implementation phase is successfully functional for all sponsor categories (School Districts, Independent Schools, Residential Child Care Institutions, Milk Only Schools, and Summer Milk). These financial reports will aid in financial management and program administration efficiency of the Nutrition Programs.

Contact Persons: Edward Giroux
 (401) 222-4600 Ext. 2234

 Adrienne DiMeo
 (401) 222-4600 Ext. 2254

Finding 2002-23

Corrective Action:

There are a number of protective, redundant devices in place to protect WIC check stock and the fiscal integrity of the Program.

On a yearly basis, a delivery schedule is developed by the State WIC staff and provided to the local WIC Agencies. On a monthly basis, checks are released by the State Agency following the prepared schedule. Once delivered and signed for by the local WIC sites, the blank check stock is entered into the Local WIC Agency Computer Inventory System. At this point the checks are ready for automated check issuance by authorized WIC staff.

In January 2002, through our FSMC banking contract, we opted to contract for the printing, storage and delivery of blank check stock. A comprehensive distribution plan was developed by the State WIC Office, which included a monthly delivery schedule. Cases of check stock were released by the printing contractor to each of the individual WIC sites based on the delivery schedule. Once deliveries were made to the local WIC sites, the range of check numbers was immediately entered into the WIC computer system (for inventory control) by the local agency WIC staff. A packing slip (which included the range of check numbers) was forwarded to the State WIC Office by the local WIC staff. Packing slips were generally forwarded to the State WIC Office in a timely manner.

Because of this change in the delivery process, the State WIC staff closely monitored the new delivery process. Nine months into the new process, the State WIC Office cancelled the delivery services and once again took control of the delivery of blank check stock to the local WIC sites.

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During these nine months, the State WIC Office was aggressive in following-up with the sub-contractor on compliance issues regarding delivery specifications. The decision to move the delivery process “in-house” was made by the WIC Program in order to safeguard WIC check stock.

Although not all packing slips were available upon demand, they were obtained and made available in a timely fashion. All WIC check stock was accounted for.

Contact person: Becky Bessette, Chief of the WIC Program
 (401) 222-4604

Finding 2002-24

Corrective Action:

Along with the annual audited financial statement, the RLF Income and Expense Statement OMB No 0610-0095 will be submitted as part of the semi-annual report for the period ending September 30th.

An annual RLF Plan Certification will be submitted with the September 30th semi-annual report.

The March 31, 2003 semi-annual report for Project No. 01-19-63002 will reflect the correction of Part III, Section A.

The RIEDC Small Business Loan Fund Corporation will submit to EDA a request to waive the requirement to fill out Part II, Sections A and B of the semi-annual RLF Reports for the four projects numbers administered by the Corporation.

The March 31, 2003 semi-annual reports for the four project numbers administered by the Corporation will correct Part V, Section D to reflect the performance of a single audit report, a copy of which will accompany these reports.

Contact person: Edward Queenan, Director – Accounting and Finance
 Rhode Island Economic Development Corporation
 (401) 222-2601 Ext. 129

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Finding 2002-25

Corrective Action:

Currently, the RLF does not have any active loans which finance a construction project. However, the Corporation will institute specific policies and procedures for future projects receiving construction financing with regards to reporting requirements related to the Davis-Bacon Act as included in the RLF Manual.

Contact person: Edward Queenan, Director – Accounting and Finance
Rhode Island Economic Development Corporation
(401) 222-2601 Ext. 129

Finding 2002-26

Corrective Action:

Forms SF-269A and SF-334 as well as complete project performance reports as required by EDA will be submitted on a going forward basis as part of the Economic Adjustment Assistance Construction Grant.

Going forward the Corporation will have an independent person review the EDA reports prior to being overviewed and signed by the Director of Finance and Accounting.

Contact person: Edward Queenan, Director – Accounting and Finance
Rhode Island Economic Development Corporation
(401) 222-2601 Ext. 129

Finding 2002-27

Corrective Action:

Rhode Island Housing interpreted the 30-day time frame regarding the Management & Occupancy (M&O) review as applying only to the HUD Insured New Construction and Substantial Rehabilitation (NC/SR) portfolio. Rhode Island Housing will now complete the M&O reviews on both the Insured & Non-Insured NC/SR portfolio within 30 days of the review being conducted on site. Staff has also been instructed to perform the follow-up regarding the CAP with the owners to ensure that it is received in a timely manner.

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Contact person: John Gordon
Director of Asset Management
(401) 457-1223

Finding 2002-28

Corrective Action:

Effective June of 2002, the administrative functions for the CDBG program were transferred to another employee within the Central Business Office. Since that time, State matching funds have been recorded.

Contact person: Louise Bright, Central Business Office
(401) 222-6603

Finding 2002-29

Corrective Action:

Effective July 1, 2002, all employee transfers are made according to time sheet allocations. An adjustment will be made to transfer, to a State appropriation, the identified disallowed cost of \$22,700.

Contact person: Louise Bright, Central Business Office
(401) 222-6603

Finding 2002-30

Corrective Action:

2002 – 30a

Effective May 2002, recipient review staff have redoubled their efforts to assure that all planned subrecipients monitoring visits are conducted as planned. A risk assessment is completed on all subrecipients to determine those UGLG with the greatest monitoring need. Pursuant to a HUD monitoring, OMA also currently employs a system to track findings and deficiencies through final resolution. It should be noted that since the transfer of fiscal administrative functions within the CBO, frequency of fiscal reviews have also increased. OMA and CBO are making great strides to assure all subrecipients are monitored both programmatically and fiscally.

Corrective Action Plan -
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2002 – 30b

On or before December 31, 2003, the Office of Municipal Affairs shall update the checklist it uses to review audits submitted under OMB Circular A-133 requirements relative to the CDBG program. In addition, this office has adopted a policy which mandates State staff review and provides a written response to a community's audit within one month of receipt of such report.

Contact person: Jeffery Gofton, Office of Municipal Affairs
(401) 222-2867

Finding 2002-31

Corrective Action:

A meeting was held to determine the cause and take corrective action for the increase to 2.27% of individuals that were not properly registered with Job Service.

Action was taken to eliminate the failure to register a UI claimant for Job Service when a claim was refiled from LO12 (Workshare) to LO 02 (ES), and the claimant had not been previously registered on the initial claim due to an allowable exception.

A corrective action memo was distributed to all personnel, indicating the proper procedure for refiling individuals from LO 12 to LO 02, to insure the claimant is registered with Job Service.

Included in the corrective action memo were instructions on the proper procedures for refiling LO 09 (Interstate) claims to LO 02 (ES). Testing has been completed to insure these procedures will eliminate noncompliance with Job Service registration.

Contact person: Raymond Filippone
Associate Director Field Operations
(401) 462-8415
E-mail: rfilippone@dlt.state.ri.us

Finding 2002-32

Corrective Action:

The Office of the General Treasurer has maintained the allocation procedure relative to salary and fringe costs to be charged by Treasury to the Unemployment Insurance Program, agreed to by the parties, and begun in the fourth quarter of FY 2002.

Corrective Action Plan -
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Specifically, in accordance with the Addendum to Article 1 of the *Agreement Between Rhode Island Department of Labor and Training Unemployment Insurance and the Office of the General Treasurer State of Rhode Island Fiscal Years 2002-2004*, Treasury has, and will, “maintain timesheets...to support allocations of employee salary and fringe benefits costs to the Unemployment Insurance Program”.

These timesheets and other documentation gathered in support of this methodology may be viewed by contacting the Office of the General Treasurer at (401) 222-6095.

Contact person: Robert Christie
Assistant Director
(401) 462-8181
e-mail: bchristie@dlt.state.ri.us

Finding 2002-33

Corrective Action:

The Department will make every attempt to ensure that it obtain the required approvals from the Division of Purchasing prior to ordering goods and services from vendors or exceeding existing purchase order amounts. A memo dated October 23, 2002 is the initial corrective action taken relative to this matter.

Contact person: Joseph V. Pomposelli
Deputy Director
(401) 462-8871
e-mail: jpomposelli@dlt.state.ri.us

Finding 2002-34

Corrective Action:

The department has changed the computer program to report all overpayments properly. We have implemented controls to ensure that the ETA 227 report is prepared in the manner described in Handbook 401, 3rd Edition, Change 3. This change was completed for the July 2003 report.

The supervisor of the Overpayment Unit, and the staff from Administrative Benefits review and approve the amount of write-offs.

Contact person: Raymond Filippone
Assistant Director Field Operations
(401) 462-8415

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

e-mail: rfileppone@dlt.state.ri.us

Finding 2002-35

Corrective Action:

Staff from the Office of the Auditor General identified some discrepancies in the information supplied to the Internal Revenue Service (IRS) during a review of the FUTA certification process. Upon notification of these discrepancies, meetings were held with the auditors and Information Processing staff from the Department of Labor and Training to determine the actions necessary to correct the issues in question. Corrections were made to the appropriate computer programs to ensure that the correct employer tax information is reported to the IRS in accordance with its' specific guidelines.

Contact person: John L. Huppee, Jr.
Chief, Employer Tax
(401) 222-3688
E-mail: johnh@gw.doa.state.ri.us

Finding 2002-36

Corrective Action:

An invoice has been prepared and submitted to the State Controller's Office to reimburse the US Department of Labor the \$10,915 in automation expenditures charged to the 1999 unemployment insurance grant funds. Increased effort will be made to ensure total compliance with period of availability requirements for grant funds.

Contact person: Robert Christie
Assistant Director
(401) 462-8181
E-mail: bchristie@dlt.state.ri.us

Finding 2002-37

Corrective Action:

Prior to the State's switch to the RISAIL system, the state data center would transmit expenditure data nightly to the Highway Finance System. When a voucher was entered into the billing system, the program checked to verify that the voucher had been paid and that it had not been entered before.

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In June of 2001, days before the start of the new fiscal year, RIDOT learned that a new format for voucher numbers and accounts would be used in the new system that was totally incompatible with the 1970 era financial system in place. Because the system was written in COBOL by a third party, modifying it was not an option. We requested that the data center come up with some acceptable alternative, but due to a myriad of problems on their end, they were never able to comply with our request.

In the late 1990's the paper flow system was modified to speed reimbursement of vendor payments. This was the result of an audit finding that we were not billing in a timely manner. Under the old manual system, payments were made, hand posted to purchase orders and then sent to Federal Programs to be manually entered into the billing system. Since all vendors for construction and design contracts are paid on the same day, and these transactions total in the millions, we began to bill those documents from the copies. The system prevented any double billings.

When the RISAIL system could not produce the vendor file, the system safeguards against double billing disappeared. The lack of implementation of any controls was not a conscious decision, but rather one of those things that are easier to identify in hindsight.

We have implemented a number of controls to prevent the reoccurrence of this problem. We no longer bill from copies, and all vouchers are stamped with a large red "BILLED" when they have been entered. Every day the computer staff runs a program to check for duplicates and another program is run after every billing.

The fifty duplicate billings are significant but it must be kept in mind that this number represents only 50 out of 6053 vouchers paid out of the FHWA account. As your report indicates, all reimbursements have been made and previous fiscal years were checked and no other duplicate billings were detected.

2002-37a

Extensive controls have been put in place.

2002-37b

Computer programs have been developed that check for duplicate entries daily, prior to any bill being submitted to FHWA and a second check is made after the billing has been submitted.

2002-37c

Only the Fiscal Management Officer or the chief of the Federal Billings section can submit credits.

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Contact person: Brian Peterson
Associate Director for Financial Management
(401) 222-6590 ext. 4634

Finding 2002-38

Corrective Action:

Partially accepted and will implement.

RIDE has instituted several corrective actions with regard to this recommendation. These include ceasing automatic advance start-up payments: in FY 97, allowing only monthly cash advance requests and in FY 98 sending letters to sub-grantees who return significant amounts of cash or maintain excess cash on hand. The above listed procedures have resulted in some minor improvement; however, the issue is part of a larger cash management state issue.

RIDE is committed to improving subrecipient cash management procedures as noted with the above actions. However, because of the large number of grants processed by this agency and a 50% reduction in personnel to handle payments to districts, RIDE cannot commit to advancing pro-rated payments for payroll as recommended. RIDE will meet with grantee business officials to jointly come to agreement on procedures to address this issue.

Consideration will be given to:

- Implementing the auditor's recommendation for only those districts identified as keeping cash on hand for longer than three days.
- Piloting the auditor's recommendation with several districts and community-based organizations.
- Putting all or some grantees on a reimbursement basis as is done with state funds.

The Office of Finance will meet with all subgrantees by January of this year.

Contact persons: Carolyn Dias
(401) 222-4600 Ext. 2402

Loreto Gandara
(401) 222-4600 Ext. 2410

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

Finding 2002-39

Corrective Action:

The University of Rhode Island strengthened procedures for Exit Interviews. Enrollment Services staff identifies all students with a leave or withdrawal status borrowing from the Direct Loan Program. Exit interview materials are then mailed directly to these students. Exit interview materials include information about the loan program, repayment options, and a staff member to contact if the student has any questions. The student is also asked to complete, sign, and return a Borrowers Rights and Responsibilities Checklist and Borrower Information Sheet to the University.

Contact person: Cynthia Mace
Assistant Controller
(401) 874-4844

Finding 2002-40

Corrective Action:

RIDE informed the auditors that the maintenance of effort (MOE) requirement for this program is the same as the Title I. The calculation is done every year as required. RIDE will continue to calculate MOE for all applicable programs.

Contact persons: Carolyn Dias
(401) 222-4600 Ext. 2402

Loreto Gandara
(401) 222-4600 Ext. 2410

Finding 2002-41

Corrective Action:

The Department has engaged in several strategies during 2002 to address the issues raised in previous Auditor General reviews of the Income Eligibility and Verification System. These include enhancements to INRHODES, operational clarification of procedures and training of the field responsible for reviewing the data match discrepancies and use of targeted overtime. Although we have made progress both staffing shortages in critical areas and the resulting increase in demands for service from a depleted workforce have hindered efforts to completely resolve this issue. The Department will continue using the previous corrective action plan. However, additional strategies are necessary to address these findings. During 2003, certain

Corrective Action Plan - Findings Included in 2002 Single Audit Report

staff will be designated in each Region to specifically respond to interface discrepancies. We will develop a work plan that will be tailored to each Region's staffing needs to insure that all interface discrepancies are correctly resolved and case files are properly documented.

2002 – 41a

The Associate Director will meet with the Regional Managers and develop a plan to designate staff in each office and program to handle all interface discrepancies.

Anticipated completion date: May 31, 2003.

Contact person: Edward P. Sneesby
(401) 462-2424

2002 – 41b

All discrepancies found in error in the Auditor General's 2002 Report will be reviewed and corrected.

Anticipated completion date: April 30, 2003.

Contact person: Edward P. Sneesby
(401) 462-2424

Finding 2002-42

Corrective Action:

This Agency continues to make progress towards correcting the deficiencies cited in this audit report (and in previous reports) relative to the reconciliation of child support collections and distributions that are reported by the State's INRHODES Automated Child Support Enforcement System and those reported by the State accounting system. The prime reason why the two systems are not currently reconcilable is that Non-IVD (non-program) child support collections and distributions are included in the State accounting system's reports, but they are excluded from the IVD program's federal report of collections and distributions (i.e., OCSE 34A) because they are considered non-program collections and disbursements.

CSE is currently working with its consultant on an enhancement to the INRHODES computer system that will result in these collections and distributions being included on the system-generated OCSE 34A report. However, severe budgetary constraints have forced CSE to prioritize programming changes to the INRHODES system, so we are currently implementing only those computer enhancements that are mandated by federal requirements. If we have sufficient additional financial resources once these required changes have been programmed,

Corrective Action Plan -
Findings Included in 2002 Single Audit Report

then the enhancement to the OCSE 34A report will be implemented during State fiscal year ending June 30, 2004.

Contact: Robert Farley, CSE Accounting
(401) 222-3782

Finding 2002-43

Corrective Action:

For the last three years there have been procedures in place to alert agents of available medical insurance when (a) the obligor is in Court and testifies that insurance is available or (b) if information is received through State New Hire reports. Please note that these procedures will be changing once the National Medical Notice is moved to production later this year (this will be discussed in more detail below).

- If the obligor has the insurance information with him, he is asked to fill out a Medical Insurance form, available at Court, which is then forwarded to the assigned agent for input into the system.
- If the obligor testifies that he has insurance but does not have the policy information with him, the agent is advised through written Special Instructions provided by the attorney to contact the employer and obtain the necessary policy information. Some attorneys provide the obligor with a copy of the Medical Insurance form instructing him/her to return the completed form to the agency.
- If medical insurance availability is indicated through State New Hire and the obligor was ordered to obtain medical insurance (if available through his/her employer at a reasonable cost), a notice is automatically sent to that employer requiring that employer to enroll the child(ren). The employer must also inform the agency (response form provided to employer) of the policy information, and whether the child(ren) is/are already enrolled. If the child(ren) has/have not been enrolled, the employer must inform the agency and state the reason(s) why (e.g., insurance no longer available, family coverage not available, insurance too costly, etc.).
- If the obligor has been ordered to maintain insurance coverage for the child(ren) and no insurance panel exists for the child(ren), a DAIL message goes on the automated case instructing the agent to file for medical contempt. In addition, other enforcement actions, such as license suspension, can be initiated based upon this message. However, because we were aware that in the past insurance information did not always get to the assigned agent for input on the INSU screen, it was decided to make an effort to rectify the situation before taking any mass enforcement actions. During FY 2002 a mass mailing was sent to all obligors, for whom this DAIL message appeared, requesting that they provide the necessary medical insurance information or face contempt action. In the

Corrective Action Plan - Findings Included in 2002 Single Audit Report

alternative, they were instructed to file for an amended order if, in fact, insurance was no longer available. Information that was returned was made available to the assigned agent for input on the INSU screen. We anticipate that enforcement efforts will be increased once the National Medical Notice is moved to production.

- We are currently exploring the possibility of auto-generating support and contempt motions based on DAIL messages. No decision has yet been made as to when or if such an enhancement will be implemented.

For over a year CSE and DHS have been regularly meeting to discuss issues surrounding medical support and to devise policy and procedures. Issues such as reasonable cost, accessibility, and comprehensiveness of available insurance were addressed. As an example, in FY 2003 Cash Medical orders were implemented through legislation. Instead of just ordering the obligor to obtain insurance if available through his/her employer, Family Court now has the option of ordering regular cash payments towards medical support either to reimburse the Medicaid agency or the non-Welfare custodial parent for the cost of medical care. It is planned that over the next twelve months all cases that currently have an obtain order will be reviewed to determine whether they should be referred for modification to a cash medical order. In addition we are exploring the use of various insurance interfaces currently available to the Medicaid agency that could be used to verify, update, or even initiate INSU panels. This will be a joint effort between the two departments.

Lastly, another initiative, implementation of the National Medical Notice, is planned for some time in FY 2004. Through this federally-standardized form, insurance data will be more frequently verified and/or, when appropriate, children will be enrolled in employer-sponsored insurance. It is a comprehensive form with detailed procedures providing for better enforcement of medical support orders. Once this is implemented, CSE will review and, where appropriate, implement other enforcement remedies for medical support orders.

Contact persons: Sharon Santilli, CSE Legal
(401) 222-2847

Edward Keenaghan, CSE Systems
(401) 222-2847

Corrective Action Plan -
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Finding 2002-44

Corrective Action:

The State Energy Office (SEO) does not dispute this finding. The Central Business Office (CBO) within the Department of Administration is responsible for preparing and submitting the financial reports for all federally funded programs administered by the SEO. An FSR for FY'2002 has been prepared and submitted to HHS and the CBO will develop control procedures to ensure that future federal reports are accurate, complete, and prepared in accordance with report instructions.

Beginning in FY 2004 the SEO hopes to develop a data system that will merge all LIHEAP, Crisis and Weatherization data together so we may track all of the required Winter/Year Round Crisis and Weatherization data elements within the LIHEAP Household Report.

Contact person: Matteo Guglielmetti, LIHEAP Program Manager
(401) 222-6920

Finding 2002-45

Corrective Action:

Although we do not dispute this finding, the SEO has throughout the years tried to develop procedures and a process to limit sub recipient funding to their immediate cash needs. We have found however, that it is an almost impossible task to be in compliance at all times throughout the year. The only way to accomplish this would be if we went to a strict reimbursement form of funding which in our opinion is not acceptable for it would put families at risk. We will continue to do all we can to strengthen our compliance in this area by coordinating this effort with the sub-recipients, CBO, the State Controllers Office, The State Treasurer and the Federal Government.

Contact person: Matteo Guglielmetti, LIHEAP Program Manager
(401) 222-6920

Finding 2002-46

Corrective Action:

2002 – 46a

The SEO does not dispute this finding. In FY 2002 we did secure the provider agreements from all our non-regulated LIHEAP fuel providers. However, in FY 2002 and also regrettably in FY

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2003 we did not have signed agreements from our regulated utility fuel providers until late into the program year. This was an oversight on our part. In FY 2004 we will take more care and be sure to have all LIHEAP fuel providers signed agreements in place prior to any disbursement of LIHEAP funds.

2002 – 46b

All agreements with utility providers, fuel providers and sub recipients have been updated and also include the required certification regarding “suspension and debarment”.

Contact person: Matteo Guglielmetti, LIHEAP Program Manager
(401) 222-6920

Finding 2002-47

Corrective Action:

This finding and recommendation were included in the Auditor General’s Report for fiscal year 2001. The issue remains that staff are not always correctly following the Department’s policy and procedures for documenting and counting income. A corrective action plan was developed to address this issue and the number of cases not in compliance was reduced during this current audit year. The corrective action plan proposes to continue addressing this Auditor General’s finding.

All cases found in error by the Auditor General during this review will be corrected. Instructions for documenting and counting income will be reissued and reviewed with all social casework staff in the Child Care Program. The responsible supervisors will review the policy and procedures with social casework staff identified as making the errors cited in the Auditor General’s report to insure an understanding of the correct policy and procedures that pertain to the treatment and documentation of income.

Anticipated completion date: May 15, 2003.

Contact person: Edward P. Sneesby
(401) 462-2424

Finding 2002-48

Corrective Action:

Effective July 1, 2002, Financial Management staff used the ACF-696 Financial Report as the supporting documentation for the Federal Cash Transaction Report. Where this specific

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supporting documentation is not available, other documentation will be utilized to reconcile recorded data with data aggregated by Financial Management staff.

Anticipated completion date: September 30, 2002.

Contact person: Kevin McCarthy
(401) 462-6871

Finding 2002-49

Corrective Action:

The Department will revise the Request for Payment Form to include a line for reporting monthly cumulative expenditures. In addition to the monthly submission of the Request for Payment, the department will continue to require entities to submit detailed fiscal reports quarterly. Through both reporting mechanisms the department will monitor cash on hand in order to insure that the amount of funds on hand are limited to the entities immediate cash needs.

Anticipated completion date: State fiscal year contracts July 1, 2003; Federal fiscal year contracts October 1, 2003.

Contact person: Gail Dunphy
(401) 462-6865

Finding 2002-50

Corrective Action:

The federal reports for FY 2002 will be adjusted by \$1,715 as recommended.

Anticipated completion date: November 19, 2003

Contact person: Leo DuCharme, Administrator Financial Management, DCYF
(401) 528-3630

Finding 2002-51

Corrective Action:

The master contract with all child care instructions has been amended to include language regarding suspension and debarment.

Contact person: Peter B. Keenan, Chief Financial Officer, DCYF

Corrective Action Plan -
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(401) 528-3632

Finding 2002-52

Corrective Action:

2002 – 52a

The Department does employ several tools to monitor many of its subrecipients in order to insure compliance. Types of monitoring tools used by the Department include reviewing agency board minutes, attending agency program events, sponsoring training sessions for subrecipient staff, and attending agency association meetings. In most cases the Department's subrecipients are also receiving federal and state funds from several other state departments, therefore a statewide approach to onsite monitoring may be a more effective way to ensure that subrecipients are expending federal awards in compliance with laws and regulations. Site visits will be used by the Department as a monitoring tool, within current staffing constraints.

2002 – 52b

The Department will strengthen measures to ensure timely receipt of subrecipient audits. The Department will issue notification letters to entities overdue in submitting audit reports within 30-days of due date. The Department will conduct timely reviews of audit reports and issuance of any required corrective action plans. The Department will continue to monitor repeat findings, which could adversely affect the ability of the subrecipient to effectively manage programs.

Anticipated completion date: Ongoing.

Contact person: Gail Dunphy
(401) 462-6865

Finding 2002-53

Corrective Action:

The Department, Center for Adult Health, has designed and tested protocols for the post payment review of homemaker claims (both Title XX and XIX). This system will be used to recapture unauthorized payments and identify inappropriate Title XX payments for expenditure adjustment. Month to month variations in service needs are common; therefore a six-month review is more appropriate. The Department will implement these procedures in FY 03.

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The Department is in the process of modifying the claims processing system to comply with the HIPAA standards. This will resolve the inappropriate funding source issue, as payment will be linked to program eligibility.

Anticipated completion date: October 2003

Contact person: Alan Tanenbaum
(401) 462-1893

Finding 2002-54

Corrective Action:

The Division of HCQFP agrees to review and refine quality control procedures necessary to ensure eligibility and allowable costs are correct. We will correct any deficiencies within our appropriate funding and staffing levels. The identified federal funds will be reported on quarterly reports submitted on March 31, 2003. The identification of other insurance is being further developed as a result of legislation passed on July 1, 2002 requiring data matches with insurance companies. This will improve our system.

Contact person: Tricia Leddy
(401) 462-2127

Finding 2002-55

Corrective Action:

The Department disagrees in that every attempt is made to properly and accurately reimburse the federal share of all collection activities. The Cost Sharing program was implemented in January 2002, thus we recognize the need to modify the system as issues are identified. The Division continues to monitor and improve the cost-sharing program; we will review the process cited and change as appropriate. Any federal funds will be reimbursed at the correct FMAP within the required 60 days.

Contact person: Tricia Leddy
(401) 462-2127

Corrective Action Plan -
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Finding 2002-56

Corrective Action:

The Department disagrees with this finding. Estimates will result in over or under draws of federal cash causing reactions from federal officials and auditors. Estimates cannot be used for federal expenditure and cash management reporting. The unique method of SCHIP funding causes delays in receiving Grant awards from the federal government. Federal funds cannot be requested until Grant Awards are posted to the letter of credit. If we were to estimate and charge the SCHIP accounts based on estimates and the SCHIP funds were not available to draw the State would be funding 100% of these expenditures.

Contact person: Ronald Gaskin
 (401) 462-6856

Finding 2002-57

Corrective Action:

The Department, Center for Adult Health, has documentation that identifies each of these individuals and the period of eligibility in question. The Center copies screen prints from the MMIS that identifies the claims processed during the period and summarizes the projected overpayments. Efforts are in process to complete this review and to reimburse the federal government within 60 days. Anticipated completion date is June 30, 2003.

Contact person: Alan Tanenbaum
 (401) 462-1893

Finding 2002-58

Corrective Action:

The Division of HCQFP is in the process of writing the RFP for the fiscal intermediary; the SAS 70 requirement is included in this. Current limitations of funding prohibit this type of audit being completed prior to a new-signed contract.

The fiscal agent oversight has improved and the Division continually makes changes as identified. The preparation of federal reports through the MMIS will not be implemented prior to the issuance of a new fiscal agent contract. The drug rebate billing and collection has also improved; however, this is dependent on responses from drug manufactures who are not under the Department's control. The passage of legislation July 1, 2002 will assist the Division in

Corrective Action Plan -
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identifying and collecting third party liabilities. The first data match is scheduled to begin April 2003.

Contact person: Jim FitzGerald
(401) 462-1879

Finding 2002-59

Corrective Action:

The Department supported the legislation to require insurance companies to provide data matches with the department. This is scheduled to begin in April 2003. This will require several months to complete, the initial matches are with the two largest insurers doing business in Rhode Island. The system has been designed to have INRHODES determine eligibility. A result is that the third party data presented by an applicant has to be verified. This data changes constantly, thus errors result. The Department disagrees that there is any responsibility to reimburse the federal government. Many of the denials for timely filing of claims occur with the Medicare program, a federal program. The Division submits facsimile claims as soon as possible after a third party has been identified.

Contact person: Jim FitzGerald
(401) 462-1879

Finding 2002-60

Corrective Action:

DHS does continue to work with other Departments to obtain all benefit expenditures processed through the MMIS. Resources from all parties limit this activity. The implementation of HIPAA will impact all programs; we are working with the other departments to bring all their programs into MMIS through this process.

The Division has notified other Departments of the procedures to follow when rates for their providers are revised. This will be done on a prospective basis in the future. This will be in place by June 2003.

Financial management will review the claiming of administrative expenditures by other departments and will process any adjustments identified on the following federal report.

Contact person: Ronald Gaskin
(401) 462-6856

Corrective Action Plan -
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Finding 2002-61

Corrective Action:

The Department and our fiscal agent began the process of reviewing all provider files and provider agreements. This effort was not completed; we are reviewing the outstanding provider agreements and will initiate appropriate action as soon as possible. This should be completed by December 2003. The other department identified in this finding is responsible for corrective action with their vendor; they have been notified of this recommendation.

Contact person: Jim FitzGerald
 (401) 462-1879

Finding 2002-62

Corrective Action:

The Department has submitted all outstanding Drug Use Review Reports as of January 31, 2003. This finding is complete.

Contact person: Paula Avarista
 (401) 462-6390

Finding 2002-63

Corrective Action:

The Department agrees with this finding and does have procedures in place to review checks outstanding for more than 180 days. Under the direction of the Medicaid Control Fraud Unit, we have been instructed to hold checks for providers under investigation or pending appeals. This may exceed 180 days. The department will review the checks in question and will refund the federal share when that amount has been determined. This will be completed by June 30, 2003.

Contact person: Ronald Chopoorian
 (401) 462-6852

Finding 2002-64

Corrective Action:

The State Plan Amendment submitted to CMS to allow certain non-governmental hospitals providing mental health services to qualify for DSH payments contains a technically incorrect

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reference to a subsection of Section 1923 of the Social Security Act (the “Act”). At all times relevant to the submission, approval and implementation of this proposed SPA, the department intended to reference subsection 1923 (d) of the Act which provides that a hospital having a Medicaid inpatient utilization rate of not less than 1 % may be defined or deemed a disproportionate share hospital. The incorrect reference was simply an error during the processing of the SPA documents to CMS, and the SPA was and continues to be an “approvable plan” under CMS standards of review had it contained the intended reference to subsection (d). The department shall submit a SPA technical amendment to CMS. The department requests that the auditor’s reference to Questioned Costs be removed from the audit report.

Contact person: John Young
 (401) 462-3575

Finding 2002-65

Corrective Action:

2002 – 65a

DHS performs a quarterly analysis of all Medicaid accounts prepare the CMS-64 expenditure report. This process includes the review of various MMIS fiscal reports and the transaction posted to the State Accounting System. The total expenditures reported on the CMS-64 quarterly report are recorded on the State Accounting System.

Anticipated completion date: on-going

Contact person: Ronald Gaskin
 (401) 462-6856

2002 – 65b

The new State Accounting System, RI-SAIL was implemented on July 1, 2001. The chart of accounts was revised on that date. Any changes of the current account structure must be accomplished by the State Controller. Also, the MMIS procedures for posting and processing are linked to the State chart of accounts to post expenditures to the correct accounts which becomes the basis to request the required federal dollars. DHS will review the current account structure.

Anticipated completion date: June 30, 2004

Contact person: Ronald Gaskin
 (401) 462-6856

Corrective Action Plan -
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2002 – 65c

DHS will contact the R.I. Division of Taxation to implement a process to obtain this information.

Anticipated completion date: April 1, 2003

Contact person: Ronald Gaskin
(401) 462-6856

2002 – 65d

The H.H.S. Office of the Inspector General is currently reviewing the R.I. CMS-64 reports as it relates to drug rebates. O.I.G. has instructed DHS not to change any federal reports during this review. We are awaiting the O.I.G. report and will implement changes at that time.

Anticipated completion date: December 31, 2003

Contact person: Ronald Gaskin
(401) 462-6856

Finding 2002-66

Corrective Action:

DHS/ORS will prepare quarterly reports based on RI-SAIL accounting records available at the time of submission. These reports will be reviewed by the ORS- Supervising Accountant for accuracy and completeness. At this time, the previous quarterly submission will also be re-checked for any outstanding postings that were not available at the time of submission. If any variances are found, a revised report will also be submitted for the previous quarter.

Anticipated completion date: The next quarterly reporting period ends June 30, 2003.

Contact person: Jennifer Patrie, Office of Rehabilitation Services
(401) 421-7005 Ext. 313

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Implemented</i>	<i>Partially Implemented</i>	<i>Not Implemented</i>	<i>No Longer Valid</i>	<i>Comments</i>
FY96	p.E82	84.048						
		Errors were made in determining the amount of indirect costs allocated to the federal program.						
		Adjust indirect costs as soon as the indirect rate is known.	1994				X	This finding was resolved through the federal Department of Education's CAROI process.
97-10	Various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997			X		See status of finding 01-8
97-11	Various	The State did not comply with the provisions of the Cash Management Improvement Act in drawing federal funds in reimbursement for most major programs. It also did not have sufficient monitoring procedures in place to ensure federal funds were drawn in compliance with requirements.						
	97-11a	Comply with cash management requirements when drawing funds for federal programs.	1995			X		See status of finding 01-9
	97-11b	Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.	1995			X		See status of finding 01-9
97-25	84.010 84.048	The department did not have adequate procedures in place to ensure subrecipients did not have federal cash on hand in excess of their immediate needs.						
	97-25	Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a).	1995		X			See status of finding 01-27
97-27	84.048 84.027 84.186 84.276	No documentation exists to support the allocation of certain costs.						
	97-27	Document the methodology for allocating costs to multiple federal programs	1997	X				

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
97-28	84.048	The Vocational Education Program was charged for the full cost of computers provided to employees who are assigned part-time to the program.						
	97-28	Adjust federal reports for the identified questioned costs.	1997				X	Resolved through the federal Department of Education's CAROI process.
97-35	93.563	The department did not reconcile child support collections and disbursements recorded in its computer system with amounts recorded in the State's accounting system.						
	97-35	Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	1992			X		See status of finding 01-38a
97-42	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
	97-42a	Document the investigation of eligibility variances between the MMIS and INRHODES computer systems and determine the amount of claims paid on behalf of ineligible individuals. Reimburse the federal government for its share.	1997		X			See status of finding 01-53
	97-42b	Improve control procedures to ensure that INRHODES eligibility data is accurately replicated in the MMIS.	1994		X			See status of finding 01-53
97-43	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
	97-43a	Improve financial oversight of the fiscal agent, including verification of information from the MMIS used to prepare financial statements and federal reports.	1994			X		See status of finding 01-54b
	97-43b	Obtain an annual examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994			X		See status of finding 01-54a

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Implemented</i>	<i>Partially Implemented</i>	<i>Not Implemented</i>	<i>No Longer Valid</i>	<i>Comments</i>
97-45	93.778	The department's plan and procedures to identify and collect third party liabilities were not fully operational in fiscal 1997, which prevented denial of certain claims when third party resources existed and limited actual reimbursement. The department also did not adequately monitor the activities of its fiscal agent with respect to third party identification and collection.						
	97-45	Improve monitoring of the fiscal agent's TPL identification and collection procedures.	1997			X		See status of finding 01-55a
97-52	93.778	Approximately \$78 million of Medicaid program expenditures were processed independently of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						
	97-52	Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997			X		See status of finding 01-56a
98-7	Various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997			X		See status of finding 01-8
98-8	Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
	98-8a	Comply with cash management requirements when drawing funds for federal programs.	1995			X		See status of finding 01-9
	98-8b	Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.	1995			X		See status of finding 01-9
98-23	84.010 84.048 84.027 84.243 84.276	No documentation exists to support the allocation of certain costs.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	98-23	Document the methodology for allocating costs to multiple federal programs.	1997				X	This finding was resolved through the federal Department of Education's CAROI process.
98-24	84.010 84.048	The department did not have adequate procedures in place to ensure subrecipients did not have federal cash on hand in excess of their immediate needs.						
	98-24	Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.219(c), 80.37 (a) (4), and 31 CFR 205.10 (a).	1995		X			See status of finding 01-27
98-36	93.558	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						
	98-36	Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.	1998			X		See status of finding 01-36a
98-37	93.563	The department did not reconcile child support collections and distributions recorded in its computer system with amounts recorded in the State's accounting system.						
	98-37a	Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	1992			X		See status of finding 01-38a
	98-37b	Investigate and resolve the difference regarding child support collections pending distribution reported by the RICSS and State accounting systems.	1998			X		See status of finding 01-38b
98-40	93.569	Subrecipient monitoring procedures need strengthening.						
	98-40	Strengthen subrecipient monitoring procedures to (1) ensure timely receipt of subrecipient audit reports and management letters, (2) ensure the timely review of audit reports and required corrective action plans, and (3) require alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements.	1998		X			See status of finding 01-45

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
98-44	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
98-44a		Improve control procedures to ensure that INRHODES eligibility data is accurately replicated in the MMIS by documenting the timely investigation of eligibility variances between the MMIS and INRHODES computer systems.	1997		X			See status of finding 01-53
98-44b		Determine the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.	1998		X			See status of finding 01-53
98-45	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
98-45a		Improve financial oversight of the fiscal agent, including verification of information from the MMIS used to prepare financial statements and federal reports.	1994			X		See status of finding 01-54b
98-45b		Obtain an annual examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994			X		See status of finding 01-54a
98-47	93.778	Delays in verifying TPL information contributed to lost TPL recovery. The department also did not adequately monitor the activities of its fiscal agent with respect to third party identification and collection.						
98-47a		Improve monitoring of the fiscal agent's TPL identification and collection procedures.	1997			X		See status of finding 01-55a
98-47b		Reimburse the federal government for its share of uncollected third party liability recoveries.	1998			X		See status of finding 01-55b
98-48	93.778	Questioned costs totaling \$42,733 were identified during the fiscal 1998 audit.						
98-48b		Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	1998			X		See status of finding 01-56d

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
98-51	93.778	Approximately \$53 million of program expenditures were processed independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						
	98-51	Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997			X		See status of finding 01-56a
98-53	93.778	Hospital cost reports are not submitted timely and therefore cost settlements are delayed.						
	98-53	Develop procedures to improve the timeliness of hospital settlements.	1998	X				
98-54	93.778	DHS did not require either contractor or providers of medical services to certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program.						
	98-54a	Require all applicable contractors to certify annually that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program.	1998			X		See status of finding 01-58
	98-54b	Revise medical service provider agreements to include a certification that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program.	1998			X		See status of finding 01-58
99-9	Various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997			X		See status of finding 01-8
99-10	Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
	99-10a	Comply with cash management requirements when drawing funds for federal programs.	1995			X		See status of finding 01-9
	99-10b	Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.	1995			X		See status of finding 01-9

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Implemented</i>	<i>Partially Implemented</i>	<i>Not Implemented</i>	<i>No Longer Valid</i>	<i>Comments</i>
99-11	10.551 93.558	Controls over the delivery of food stamps and Temporary Assistance to Needy Families (TANF) benefits are weakened because some individuals have access to the Department's INRHODES eligibility system and Deluxe Data's EBT card personal identification number authorization system.						
	99-11a	Segregate responsibilities such that no individual has access to both initiate or modify case data within the Department's INRHODES system and the ability to generate EBT cards and establish personal identification numbers.	1999			X		See status of finding 01-12a
	99-11b	Determine and document all individuals with access to the Deluxe Data EBT card authorization system.	1999	X				
99-12	10.551	The EBT system operating during the year did not provide sufficient information to reconcile the total funds in the system each day as required.						
	99-12	Implement procedures to reconcile total funds entering into, exiting from and remaining in the EBT system each day.	1999			X		See status of finding 01-11
99-29	84.010 84.027 84.173	RIDE did not have adequate procedures in place to ensure subrecipients did not have federal cash on hand in excess of their immediate needs.						
	99-29	Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37(a), and 31 CFR 205.10(a).	1995 84.010		X			See status of finding 01-27
			1999 84.027 84.173					
99-33	93.558	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
99-33	99-33a	Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.	1998			X		See status of finding 01-36a
	99-33b	Maintain documentation supporting the resolution of data match discrepancies.	1999			X		See status of finding 01-36b
99-34	93.563	The department did not reconcile child support collections and distributions recorded in its computer system with amounts recorded in the State's accounting system.						
	99-34a	Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	1992			X		See status of finding 01-38a
	99-34b	Investigate and resolve the difference regarding child support collections pending distribution reported by the RICSS and State accounting systems.	1998			X		See status of finding 01-38b
99-42	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
	99-42b	Determine the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.	1998		X			See status of finding 01-53
99-43	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
	99-43a	Obtain an annual examination ("SAS 70" review) performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994			X		See status of finding 01-54a
	99-43b	Improve financial oversight of the fiscal agent, including verification of information from the MMIS used to prepare financial statements and federal reports.	1994			X		See status of finding 01-54b

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
99-46	93.778	Delays in verifying TPL information contributed to lost TPL recovery. The department also did not adequately monitor the activities of its fiscal agent with respect to third party identification and collection.						
99-46a		Improve monitoring of the fiscal agent's TPL identification and collection procedures.	1997			X		See status of finding 01-55a
99-46b		Reimburse the federal government for its share of uncollected third party liability recoveries.	1998			X		See status of finding 01-55b
99-49	93.778	Approximately \$75 million of program expenditures were processed independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						
99-49a		Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997			X		See status of finding 01-56a
99-49b		Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	1998			X		See status of finding 01-56d
99-50	93.778	Hospital cost reports are not submitted timely and therefore cost settlements are delayed.						
99-50		Seek enforcement authority within the General laws to improve the timeliness of hospital settlements.	1998	X				
99-51	93.778	DHS did not require either contractor or providers of medical services to certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program.						
99-51		Revise medical service provider agreements to include a certification that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program.	1998			X		See status of finding 01-58
00-09	Various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997			X		See status of finding 01-8

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
00-10	Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
00-10a		Comply with cash management requirements when drawing funds for federal programs.	1995			X		See status of finding 01-9
00-10b		Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.	1995			X		See status of finding 01-9
00-11	10.550 10.553 10.555 10.556 10.559	Inventory record keeping and controls over the receipt and distribution of donated food commodities should be improved.						
00-11		Improve controls over the receipt and distribution of donated food commodities by ensuring that all required forms are completed and recorded in the inventory records when goods are received, shipped, or damaged.	2000	X				
00-12	10.551 10.561	The EBT system operating during the year did not provide sufficient information to reconcile the total funds in the system each day as required.						
00-12		Implement procedures to reconcile total funds entering into, exiting from and remaining in the EBT system each day.	1999			X		See status of finding 01-11
00-15	14.182	The Corporation is required to deposit the year-end surplus into a "residual receipts" account within 60 days after year-end. We noted the average deposit made by the Corporation is in excess of 110 days.						
00-15		The Corporation should tighten controls to ensure that the required deposits are made on a timely basis.	2000	X				
00-16	14.228	The Department did not monitor its compliance with the matching requirements of the Community Development Block Grant Program (CDBG).						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	00-16	Maintain documentation to support required State-matching expenditures for administrative costs that exceed \$100,000.	2000			X		See status of finding 01-17
00-17	14.228	Certain salary and fringe benefit costs charged to the CDBG program were questioned.						
	00-17	Allocate employees' salaries and fringe benefits to the appropriate activities based on completed weekly time sheets.	2000			X		See status of finding 01-18
00-20	17.245	The Department of Labor and Training (DLT) lacks adequate internal control procedures to ensure the reliability of data reported on federal report form ETA 563 (<i>Quarterly Determinations, Allowance Activities and Reemployment Services Under the Trade Act – OMB No. 1205-0016</i>).						
	00-20a	Develop internal control procedures to ensure the accuracy and completeness of ETA 563 report information. Report all information required by the instructions and in the manner specified.	2000		X			See status of finding 01-22a
	00-20b	Maintain adequate detailed supporting documentation for amounts reported.	2000		X			See status of finding 01-22b
	00-20c	Seek to automate the process using existing and more sophisticated systems.	2000		X			See status of finding 01-22c
00-24	84.010 84.027 84.173	RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month.						
	00-24	Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a).	1995 84.010		X			See status of finding 01-27
			1999 84.027 84.173					

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>				
00-26	84.027	RIDE used budgeted amounts to allocate personnel costs for employees working on multiple activities or cost objectives but did not make any comparisons to actual time distributions for these employees.										
	84.173											
00-26		Comply with OMB Circular A-87 requirements when using budget estimates for allocating personnel costs of employees working on multiple activities or cost objectives.	2000	X								
00-28	84.126	The computer report used to prepare the fiscal year 2000 RSA-2 was not generated on the last day of the federal fiscal year. As a result, the case status data reported on this RSA-2 did not reflect end of the year information, as required.										
	00-28	Generate reports on the last day of the federal fiscal year to ensure the accuracy of client status data reported on the RSA-2, or modify the computer system to allow retrieval of client status as of a prior date.							2000	X		
00-32	93.558	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.										
	00-32a	Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.							1998		X	See status of finding 01-36a
	00-32b	Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or benefit levels.							1999		X	See status of finding 01-36b
	00-32c	Investigate the reasons why certain case records lack evidence of either (1) resolution of the IEVS discrepancy or (2) evidence that the caseworker had received electronic notice that the discrepancy existed.							2000	X		
00-34	93.563	CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system.										

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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00-34	00-34a	Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	1992			X		See status of finding 01-38a
	00-34b	Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems.	1998			X		See status of finding 01-38b
00-35	93.563	Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced.						
00-35a		Enhance control procedures to ensure that medical coverage information is recorded within the CSE INRHODES computer system on a timely basis when medical support is ordered by the court.	2000		X			See status of finding 01-39a
00-35b		Initiate appropriate enforcement action for medical support orders.	2000		X			See status of finding 01-39b
00-37	93.563	No adjustment was made for fiscal 2000 interest earnings on child support collections.						
00-37		Record program income for the amount of allocated interest earnings on child support collections deposited in the State's General Fund.	2000	X				
00-39	93.568	LIHEAP needs to improve its subrecipient monitoring procedures to ensure it fully meets its responsibilities as a pass-through entity and also to ensure that subrecipients are complying with program requirements.						
00-39a		Implement a new audit report review checklist, which reflects current OMB A-133 guidelines. Train personnel responsible for review of subrecipient audit reports on relevant Single Audit topics.	2000	X				
00-39b		Issue management decisions within 6 months of receipts of the audit report on all findings (applicable to LIHEAP) contained in subrecipient audit reports.	2000	X				
00-41	93.658 93.778	DCYF has no procedures in place to ensure the accuracy of administrative costs determined by the cost allocation system. The department does not obtain and review the supporting documentation of the cost allocation system generated by the consultant each quarter.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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00-41a		Adjust federal reports and claims for reimbursement for questioned costs relating to the overstatement of administrative expenditures for fiscal year 2000.	1999		X			The Foster Care adjustment was completed. The Medical Assistance portion was not completed.
00-42	93.667 93.778	Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source.						
00-42		Strengthen procedures to ensure that vendor billings for homemaker services are verified as to funding source, authorization period and authorized hours prior to payment.	2000			X		See status of finding 01-49
00-43	93.667	DHS's subrecipient monitoring procedures, particularly for entities expending less than \$300,000 in federal awards, may not be sufficiently comprehensive to ensure federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements.						
00-43		Strengthen subrecipient monitoring procedures to provide reasonable assurance that subrecipients are expending federal awards in compliance with laws, regulations and the provisions of the grant agreement.	2000			X		See status of finding 01-45
00-46	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
00-46		Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.	1997		X			See status of finding 01- 53
00-47	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-47	00-47a	Obtain an annual examination ("SAS 70" review) performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994			X		See status of finding 01- 54a
	00-47b	Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.	1994			X		See status of finding 01- 54b
00-49	93.778	Delays in verifying TPL information contributed to lost TPL recovery.						
	00-49a	Review existing procedures to ensure that third party liabilities are identified on a timely basis.	1997			X		See status of finding 01- 55a
	00-49b	Reimburse the federal government for its share of uncollected third party liability recoveries.	1998			X		See status of finding 01- 55b
00-51	93.778	Approximately \$90 million of program expenditures were processed independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						
	00-51a	Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997			X		See status of finding 01- 56a
	00-51b	Ensure payments to state facilities are consistent with actual claims adjudicated by the MMIS. Review and approve all internal accounting transactions authorizing payment of Medicaid funds to State facilities.	2000	X				
	00-51c	Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	1998			X		See status of finding 01- 56d
00-52	93.778	Hospital cost reports are not submitted timely and therefore cost settlements are delayed.						
	00-52	Seek enforcement authority within the General laws to improve the timeliness of hospital settlements.	1998	X				

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
00-53	93.778	DHS did not require contractors or providers of medical services to certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program.						
00-53		Require all Departments expending Medicaid funding to include certifications that neither the entity nor its principals are suspended or debarred from participating in the Medical Assistance Program in all contracts.	1998			X		See status of finding 01- 58
00-55	93.778	DHS has not submitted the required Drug Use Review Program reports for fiscal years 1998 and 1999.						
00-55		Prepare and submit the required Medicaid Drug Use Review Agency Report annually.	2000			X		See status of finding 01- 59
00-58	R&D Cluster Various	Six of 20 financial reports selected for testing were not submitted within the timeframes required by the granting agencies.						
00-58		Procedures should be reviewed to ensure that all federally required reports are filed within the required timeframes established by the granting agencies.	2000	X				
00-60	10.551 93.558	Controls over the delivery of food stamps and Temporary Assistance to Needy Families (TANF) benefits are weakened because some individuals have access to the Department's INRHODES eligibility system and Deluxe Data's EBT card personal identification number authorization system.						
00-60a		Segregate responsibilities such that no individual has access to both initiate or modify case data within the Department's INRHODES system and the ability to generate EBT cards and establish personal identification numbers.	1999			X		See status of finding 01-12a
00-60b		Determine and document all individuals with access to the Deluxe Data EBT card authorization system.	1999	X				
01-8	Various	The State did not comply with regulations governing the use, management and disposition of equipment purchased with federal funds.	1997			X		See Corrective Action Plan for Finding 2002-16

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<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
01-9	Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
	01-9	Implement a centralized monitoring system to ensure compliance with cash management requirements. Vest responsibility for cash management of federal programs with the Office of the General Treasurer.				X		See Corrective Action Plan for Finding 2002-17a
01-10	10.550 10.553 10.555 10.556 10.559	Inventory record keeping and controls over the receipt and distribution of donated food commodities should be improved.						
	01-10	Improve controls over the receipt and distribution of donated food commodities by ensuring that all required forms are completed and recorded in the inventory records when goods are received, shipped, or damaged.	2000	X				
01-11	10.551	The EBT system operating during the year did not provide sufficient information to reconcile the total funds in the system each day as required.						
	01-11	Implement procedures to reconcile total funds entering into, exiting from and remaining in the EBT system each day.	1999			X		See Corrective Action Plan for Finding 2002-19
01-12	10.551 93.558	Controls over the delivery of food stamps and Temporary Assistance to Needy Families (TANF) benefits are weakened because some individuals have access to the Department's INRHODES eligibility system and Deluxe Data's EBT card personal identification number authorization system.						
	01-12a	Segregate responsibilities such that no individual has access to both initiate or modify case data within the Department's INRHODES system and the ability to generate EBT cards and establish personal identification numbers.	1999			X		See Corrective Action Plan for Finding 2002-20
	01-12b	Determine and document all individuals with access to the Deluxe Data EBT card authorization system.	1999	X				

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<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Implemented</i>	<i>Partially Implemented</i>	<i>Not Implemented</i>	<i>No Longer Valid</i>	<i>Comments</i>
01-13	10.553	RIDE implemented a new computer system to administer the child nutrition programs. User access was not adequately restricted and controlled through the use of specific user ID's and passwords.	2001					Many of the concerns found were to be remedied by the installation of a newer version of the automated system. The upgrade was scheduled to take place in late FY 2002. Referencing a series of delays that included additional programming efforts, changes within the system configuration, and loss of key IT personnel, the planned system upgrade did not take place until December 2002. RIDE staff, working in conjunction with the computer consultant, stated that all remaining user account control deficiencies would be rectified by fiscal year end 2003. See Corrective Action Plan for Finding 2002-21
	10.555							
10.556								
01-13		Enhance system security features by (1) assigning all users unique passwords, (2) defining and controlling access to system data through user ID's and passwords, and (3) implementing standard password administration procedures.				X		
01-14	10.553	The computer system installed by RIDE to administer child nutrition programs lacked the capability to fully meet the department's federal reporting requirements. Manual calculations resulted in errors being reported. The system also incorrectly calculated some meal reimbursements.						See Comments, Finding 01-13 above and Corrective Action Plan for Finding 2002-22a
	10.555							
	10.556							
01-14a		Improve controls over federal reporting by resolving the computer system design and implementation deficiencies.	2001			X		
01-14b		Reconcile expenditures included in quarterly reports (SF-269) to amounts included in the State accounting system.	2001			X		The Department did not perform the reconciliation. They cited the continued computer system design and implementation deficiencies as the cause, specifically the lack of a cumulative reporting function. RIDE staff, working in conjunction with the computer consultant, stated that all remaining user account control deficiencies would be rectified by fiscal year end 2003. See Corrective Action Plan for Finding 2002-22b

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
01-15	14.182	HUD requires that a sampling of files be examined during the annual management and occupancy review of developments. A minimum of five tenant files must be examined. In one case, only three tenant files were reviewed,						
01-15		The Corporation should ensure that individuals performing reviews are aware of the HUD requirements regarding the number of tenant files to review.	2001	X				
01-16	14.182	The Corporation did not follow-up on physical inspections by REAC to ensure that owners/agents are complying with regulations.						
01-16		The Corporation should establish a process to follow-up on REAC's physical inspections in a timely manner.	2001	X				
01-17	14.228	The Department did not monitor its compliance with the matching requirements of the Community Development Block Grant Program (CDBG).						
01-17		Maintain documentation to support required State-matching expenditures for administrative costs that exceed \$100,000.	2000			X		See Corrective Action Plan for finding 2002-28
01-18	14.228	Certain salary and fringe benefit costs charged to the CDBG program were questioned.						
01-18		Allocate employees' salaries and fringe benefits to the appropriate activities based on completed weekly time sheets.	2000			X		See Corrective Action Plan for finding 2002-29
01-19	14.228	The Department needs to improve its monitoring procedures to ensure that subrecipients are using CDBG funds for authorized purposes in compliance with laws, regulations and the provisions of contract and grant agreements.						
01-19		Improve subrecipient monitoring procedures by ensuring all required subrecipient site visits are conducted and by reviewing all subrecipient audit reports on a timely basis.	2001			X		See Corrective Action Plan for finding 2002-30a
01-20	17.225	Salary and benefit costs charged by the Office of the General Treasurer to the Unemployment Insurance Program were not supported by employee timesheets or other equivalent documentation.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	01-20	Require the Office of the General Treasurer to maintain timesheets or other equivalent documentation to support allocations of employee salary and fringe benefits costs to the Unemployment Insurance Program. Include this in the interagency agreement.	2001		X			See Corrective Action Plan for Finding 2002-32
01-21	17.225	The Unemployment Insurance Program was over-allocated approximately \$340,000 because DLT did not allocate any tax activity costs to the Reemployment Tax Fund, which was established January 1, 2002						
	01-21a	Determine the exact amount of over charges to the Unemployment Insurance Program, upon receiving federal approval of the revised <i>cost-sharing plan</i> .	2001	X				
	01-21b	Adjust future federal reports and drawdowns for the amount inappropriately claimed and reimbursed.	2001	X				
01-22	17.245	The Department of Labor and Training (DLT) lacks adequate internal control procedures to ensure the reliability of data reported on federal report form ETA 563 (<i>Quarterly Determinations, Allowance Activities and Reemployment Services Under the Trade Act – OMB No. 1205-0016</i>).						
	01-22a	Improve internal control procedures to ensure the accuracy and completeness of ETA 563 report information. Report all information required by the instructions and in the manner specified, and on the proper federal reports.	2000		X			Implemented in FY 2004. The Adult Dislocated Worker Unit (ADWU) has assigned an additional level of supervisory review to all data elements for items in the ETA 563 report in the ADWU. On a quarterly basis, all queries and documentation are reviewed for all petitions in the ETA 563 report submission.
	01-22b	Maintain adequate detailed supporting documentation for amounts reported.	2000		X			Implemented in FY 2004. Original supporting documentation is now maintained for all reportable items on the ETA report including queries with zero results.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Implemented	Partially Implemented	Not Implemented	No Longer Valid	Comments
01-22c		Seek to automate the process using existing and more sophisticated systems.	2000		X			Most of the Basic and Additional TRA data entries are now generated from an automated report. Staff will continue its effort to automate all Basic and Additional TRA entries and that portion of the ETA 563 report on training statistics as recommended.
01-22d		Assess the accuracy of ETA 563 reports previously submitted during fiscal 2000 and fiscal 2001. Submit revised reports as necessary,	2001		X			Staff will continue to assess the accuracy of ETA 563 reports previously submitted during fiscal 2000 and 2001 and submit revised reports, if and to the extent data is available.
01-23	17.255	Our review of the WIA Financial Status Reports revealed several exceptions in amounts reported and accounting methods used.						
01-23		Improve controls to ensure the accuracy and completeness of Financial Status Report information in accordance with the report instructions.	2001		X			The financial reports are complete concerning all reportable items, but did not include full accruals for all WIA funded programs. Staff of the SWIO monitor the two Workforce Investment Areas to ensure their compliance with proper reporting requirements. A number of programs administered at the state level did not include full accrual reporting. Staff will ensure these programs comply with proper reporting requirements.
01-24	17.255	The Workforce Investment Office within the Department of Labor and Training and the two local workforce investment areas do not have procedures to continually monitor and ensure compliance with the low-income earmarking/eligibility requirement.						
01-24		Develop control procedures to continually monitor and ensure compliance with the 95% disadvantaged low-income requirement and the 5% exception criteria for youth activities.	2001			X		Implemented in FY 2004. The department currently monitors compliance with the 95% disadvantaged low-income criteria as recommended. The characteristic report is not submitted to the SWIO, but are made available to SWIO staff during on-site monitoring visits.

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<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
01-25	20.205	Within the Highway Planning and Construction Program we found a federal aid project where amounts were inappropriately claimed and reimbursed over a seven-year period.						
	01-25a	Adjust federal reports and future drawdowns of federal funds for the amounts inappropriately claimed and reimbursed.	2001	X				
	01-25b	Strengthen internal control procedures to ensure that federal funds are not overdrawn.	2001	X				
01-26	20.600	The Governor's Office on Highway Safety did not reconcile expenditures recorded in the State Controller's accounting system to the expenditure reports submitted to NHTSA. The State Controller's accounting system did not identify expenditures by grant award.						
	01-26a	Record expenditures for each federal grant in a separate appropriation account in the State Controller's accounting system.	2001		X			90% of accounts have been set-up in RI-Sail
	01-26b	Reconcile expenditures between the State Controller's accounting system and expenditure reports submitted to NHTSA.	2001	X				
01-27	84.010 84.027 84.173 84.340	RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month.						
	01-27	Monitor advances to subrecipients to ensure that they conform to standards required by 34 CFR 80.21(c), 80.37 (a) (4), and 31 CFR 205.10(a).	1995 84.010		X			See Corrective Action Plan for finding 2002-38
			1999 84.027 84.173		X			
			2001 84.340		X			

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01-28	84.032	Prescribed collection procedures were not followed for up to 96 defaulted loans totaling \$1,005,802 acquired from lenders on January 31, 2001.						
01-28		The Authority should verify that all 96 loans are now subject to collection activities. The Authority should also reconcile weekly defaults with the data in the collection activity system on a timely basis.	2001	X				
01-29	84.007 84.032 84.033 84.038 84.063	Fourteen out of 30 refunds selected for testwork were not returned within the required timeframes, although the refunds were eventually returned.						
01-29		College policies should be reviewed to ensure that refunds are returned within the required timeframes.	2001	X				
01-30	84.032	The September 2000 transmission of the student status confirmation report was not completed and returned within 30 days as required.						
01-30		The college should review its procedures over submission of withdrawal information to ensure that the information is reported within the timeframes required by the federal government.	2001	X				
01-31	84.032 84.033	We noted there was no documentation indicating the verification of financial aid application items had been performed for one student out of the 30 selected for testwork.						
01-31		Policies should be enforced to ensure that all specified items are verified by the College prior to the disbursement of federal funds.	2001	X				
01-32	84.038	Disbursement of federal funds (Perkins Loan) to one student occurred prior to the signing of the promissory note by the student.						
01-32		The College should review its policies and procedures in place to ensure all individuals receiving a Perkins Loan have properly signed a promissory note prior to receiving a disbursement of funds.	2001	X				

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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01-33	84.063	The origination record establishes a student's eligibility for a Pell grant and the amount of the award. We noted that for 27 out of 30 student records tested, the origination acceptance date occurred after the College made its first disbursement of funds to the students. Disbursement records were not submitted timely to the Department of Education.						
01-33		The College should review its procedures to ensure all students are properly originated prior to making disbursements to student accounts. Policies and procedures over transmission of disbursement records to the Department of Education should also be reviewed to ensure that data is transmitted within the required 30 days.	2001	X				
01-34	84.126	The computer report used to prepare the RSA-2 was not generated on the last day of the federal fiscal year. As a result, the case status data reported on this RSA-2 did not reflect end of the year information, as required.						
01-34		Generate reports on the last day of the federal fiscal year to ensure the accuracy of client status data reported on the RSA-2, or modify the computer system to allow retrieval of client status as of a prior date.	2000	X				
01-35	84.340	RIDE does not have procedures in place to determine if it has met its level of effort requirement for the Class Size Reduction Program.						
01-35		Implement procedures to ensure that the level of effort requirement regarding program expenditures in preceding years has been met.	2001				X	The Class Size Reduction Program was discontinued after fiscal year 2002.
01-36	93.558	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						

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Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
01-36	01-36a	Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.	1998			X		See Corrective Action Plan for Finding 2002-41a
	01-36b	Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or benefit levels.	1999			X		See Corrective Action Plan for Finding 2002-41b
	01-36c	Investigate the reasons why certain case records lack evidence of either (1) resolution of the IEVS discrepancy or (2) evidence that the caseworker had received electronic notice that the discrepancy existed.	2000	X				
01-37	93.558	Programming changes were made to the IRS interface program that resulted in no discrepancies being reported to caseworkers. The programming change was neither documented nor reviewed.						
	01-37a	Strengthen control procedures to ensure that changes to application software and all subsequent modifications are controlled, properly documented, reviewed and approved.	2001		X			The Department has indicated that control procedures have been strengthened to ensure software modifications are controlled, properly documented, reviewed and approved. The changes in control procedures have not been formally documented.
	01-37b	Correct the IRS interface program and rerun fiscal 2001 IRS data matches.	2001			X		
01-38	93.563	CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system.						
	01-38a	Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	1992			X		See Corrective Action Plan for Finding 2002-42a
	01-38b	Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems.	1998			X		See Corrective Action Plan for Finding 2002-42b
01-39	93.563	Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced.						

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Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Initial Year of Rec.	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
01-39	01-39a	Enhance control procedures to ensure that medical coverage information is recorded within the CSE INRHODES computer system on a timely basis when medical support is ordered by the court.	2000		X			See Corrective Action Plan for Finding 2002-43a
	01-39b	Initiate appropriate enforcement action for medical support orders.	2000		X			See Corrective Action Plan for Finding 2002-43b
01-40	93.563	No adjustment was made for two quarters of fiscal 2001 interest earnings on child support collections.						
	01-40	Record program income for the amount of allocated interest earnings on child support collections deposited in the State's General Fund.	2000	X				
01-41	93.568	LIHEAP needs to improve its subrecipient monitoring procedures to ensure it fully meets its responsibilities as a pass-through entity and also to ensure that subrecipients are complying with program requirements.						
	01-41a	Issue management decisions within 6 months of receipts of the audit report on all findings (applicable to LIHEAP) contained in subrecipient audit reports.	2000	X				
	01-41b	Train personnel responsible for review of subrecipient audit reports on relevant Single Audit topics.	2000	X				
	01-41c	Update subrecipient contracts to reflect the current requirements of OMB Circular A-133.	2001			X		Implemented in FY 2003.
	01-41d	Ensure contracts are maintained with all subrecipients.	2001	X				
01-42	93.568	The State Energy Office did not require its providers of fuel and utility services or subrecipients to certify that the organization and its principals are not suspended or debarred from participating in the LIHEAP program.						
	01-42	Require all agreements with utility and fuel providers and subrecipients to include certifications that neither the entity nor its principals are suspended or debarred from participating in the LIHEAP program.	2001			X		See Corrective Action Plan for Finding 2002-46b

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01-43	93.568	The State Energy Office did not submit a required financial status report (SF-269A <i>Financial Status Report</i>) for the Low-Income Home Energy Assistance Program.						
	01-43	Procedures should be enhanced to ensure that all federally required reports are filed within the required timeframes established by the granting agency. Submit the required financial status report.	2001			X		See Corrective Action Plan for Finding 2002-44b
01-44	93.569 93.575	The Department policies and procedures are not effective in limiting subrecipient's cash on hand and requests for cash to their immediate needs.						
	01-44	Strengthen subrecipient cash management procedures to provide reasonable assurance that subrecipient payments are limited to the entity's immediate cash needs.	2001			X		See Corrective Action Plan for Finding 2002-49
01-45	93.569 93.667	Controls over subrecipient monitoring could be improved. Subrecipient audit reports are not received and reviewed on a timely basis. Management decisions are not issued as required by OMB Circular A-133.						
	01-45a	Strengthen subrecipient monitoring procedures to (1) ensure timely receipt of subrecipient audit reports and (2) ensure the timely review of audit reports and required corrective action plans.	1998	X				
	01-45b	Perform alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements.	1998			X		See Corrective Action Plan for Finding 2002-52a
	01-45c	Issue management decisions within six-months of receipt of the audit report as required by OMB Circular A-133.	2001	X				
01-46	93.575 93.596	Childcare workers sometimes failed to comply with established procedures regarding hardcopy documentation of eligibility and income. This resulted in errors in the calculation of provider payments and co-payments.						
	01-46	Adhere to internal procedures requiring agency personnel obtain and utilize the appropriate documentation to update electronic case file records prior to approving childcare eligibility and determining payment amounts.	2001			X		See Corrective Action Plan for Finding 2002-47

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01-47	93.658	We found one case that was not eligible for federal participation because there was no evidence of a criminal records check or a fire inspection of the foster home.						
	01-47	Adjust federal reports to reimburse the federal government for the unallowable maintenance costs charged during fiscal year 2001.	2001			X		The department will adjust federal reports for these costs in FY 2003.
01-48	93.658	DCYF did not require vendors to certify that the organization and its principals are not suspended or debarred from participation in the Foster Care program.						
	01-48	Include certifications regarding suspension and debarment in contracts with childcare institutions participating in the Foster Care – Title IV-E program.	2001			X		The department will add these certifications to its standard contracts with child care institutions.
01-49	93.667 93.778	Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source.						
	01-49	Strengthen procedures to ensure that vendor billings for homemaker services are verified as to funding source, authorization period and authorized hours prior to payment.	2000			X		See Corrective Action Plan for Finding 2002-53
01-50	93.767	Controls are not adequate to accurately and reliably identify the individuals eligible for SCHIP program benefits and the accumulation of costs reimbursable under the program.						
	01-50a	Code individuals meeting the SCHIP eligibility criteria in both the INRHODES and MMIS computer systems to improve control over the identification and accumulation of SCHIP eligible program costs.	2001				X	Due to the variability of SCHIP funding, modifying the INRHODES and MMIS systems to determine SCHIP eligibility is unfeasible. Qualifying Medicaid individuals are only SCHIP eligible to the extent that funding is available. See current year finding and corrective action plan 2002-54.
	01-50b	Modify the INRHODES computer system eligibility module to determine eligibility in accordance with the approved SCHIP State plan.	2001				X	
01-51	93.767 93.778	SCHIP expenditures were initially claimed as Medicaid program expenditures and later adjusted and claimed as SCHIP expenditures. Current programming does not allow SCHIP expenditures to be attributed to the appropriate funding source.						

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01-51		Modify coding of SCHIP individuals within the MMIS to allow identification of SCHIP eligible expenditures at the time of payment.	2001				X	See comments for finding 01-50 above, and current year finding and corrective action plan 2002-56.
01-52	93.775 93.778	There is little communication between the Department of Human Services and the Department of Attorney General's Medicaid Fraud Unit.						
01-52		Improve communication and sharing of data between the Department of Human Services and the Department of Attorney General's Medicaid Fraud Control Unit with the objective of enhancing identification and control of provider fraud.	2001	X				
01-53	93.778	Adequate controls were not in place to ensure that claims were paid only for individuals eligible under the Medical Assistance Program.						
01-53		Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.	1997		X			DHS identified some questioned costs related to ineligible individuals for FY 2001, however, complete documentation of this determination was not provided by the department. See Corrective Action Plan for Finding 2002-57
01-54	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
01-54a		Obtain an annual examination ("SAS 70" review) performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	1994				X	See Corrective Action Plan for Finding 2002-58a
01-54b		Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.	1994				X	See Corrective Action Plan for Finding 2002-58b
01-55	93.778	Delays in verifying TPL information contributed to lost TPL recovery.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
01-55	01-55a	Review existing procedures to ensure that third party liabilities are identified on a timely basis.	1997			X		See Corrective Action Plan for Finding 2002-59a
	01-55b	Reimburse the federal government for its share of uncollected third party liability recoveries.	1998			X		See Corrective Action Plan for Finding 2002-59b
	01-55c	Investigate the possibility of sharing data electronically with other insurers to facilitate the identification of third party liability.	2001			X		See Corrective Action Plan for Finding 2002-59c
01-56	93.778	Approximately \$100 million of program expenditures were processed independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.						
	01-56a	Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS.	1997			X		See Corrective Action Plan for Finding 2002-60a
	01-56b	Ensure payments to state facilities are consistent with actual claims adjudicated by the MMIS. Review and approve all internal accounting transactions authorizing payment of Medicaid funds to State facilities.	2000	X				
	01-56c	Implement oversight procedures for per diem rates established for state operated facilities.	2001			X		See Corrective Action Plan for Finding 2002-60b
	01-56d	Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	1998			X		See Corrective Action Plan for Finding 2002-60c
01-57	93.778	Hospital cost reports are not submitted timely and therefore cost settlements are delayed.						
	01-57	Seek enforcement authority within the General laws to improve the timeliness of hospital settlements.	1998	X				
01-58	93.778	DHS did not obtain revised agreements from all its contractors that certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
01-58		Review and strengthen procedures designed to ensure current agreements containing the required suspension and debarment certifications are in place for all providers.	1998			X		See Corrective Action Plan for Finding 2002-61
01-59	93.778	DHS has not submitted the required Drug Use Review Program reports for fiscal years 1998 and 1999.						
01-59		Prepare and submit the required Medicaid Drug Use Review Agency Report annually.	2000			X		See Corrective Action Plan for Finding 2002-62
01-60	93.778	Two providers that were deemed active by the Department of Health were shown as active on the MMIS. Another provider whose license was suspended received payment for services rendered within the period of suspension. Another provider listed as excluded on the federal HHS web site was shown as active on the MMIS.						
01-60		Review and strengthen existing procedures to ensure all Medicaid providers meet the requirement regarding provider eligibility.	2001	X				
01-61	93.959	MHRH did not require vendors to certify that the organization and its principals are not suspended or debarred from participation in the Block Grants for Prevention and Treatment of Substance Abuse Program.						
01-61		Include certifications regarding suspension and debarment in contracts with childcare institutions participating in the Block Grants for Prevention and Treatment of Substance Abuse Program.	2001			X		The Department of Mental Health, Retardation and Hospitals (MHRH) has indicated that contract amendments for the 2003 funding period include a suspension and debarment certification. MHRH indicated that due to the transmittal of the state fiscal year 2001 report in March 2002, the Department was unable to implement this recommendation in 2002.
01-62	93.959	MHRH does not specifically identify to a subrecipient the amount of federal funds awarded. The department failed to obtain audit reports from a subrecipient to which it had awarded \$700,000.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Initial Year of Rec.</i>	<i>Implemented</i>	<i>Partially Implemented</i>	<i>Not Implemented</i>	<i>No Longer Valid</i>	<i>Comments</i>
01-62a		Identify the specific federal award and all relevant compliance requirements when funds are provided to subrecipients.	2001			X		The Department of Mental Health, Retardation and Hospitals (MHRH) has indicated that contract amendments for the 2003 funding period identify Federal awards by catalog of federal domestic assistance number. MHRH indicated that due to the transmittal of the state fiscal year 2001 report in March 2002, the Department was unable to implement this recommendation in 2002.
01-62b		Ensure entities receiving Substance Abuse Block Grant funds have complied with program requirements by obtaining and reviewing OMB Circular A-133 audit reports on a timely basis.	2001	X				
01-63	R&D Cluster 11.417 43.001	Seven of 50 financial reports selected for testwork were not submitted within the timeframes required by the granting agencies.						
01-63		Procedures should be reviewed to ensure that all federally required reports are filed within the timeframes established by the granting agencies.	2001	X				

Mission

“The Office of the Auditor General exists to support the State Legislature and Federal Government in meeting their constitutional responsibilities and to help improve the performance and accountability of government”